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TO

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PROVINCE OF MANITOBA

MANITOBA'S SUBMISSIONS

TO

THE ROYAL COMMISSION ON TRANSPORTATION



WINNIPEG, MANITOBA

1949

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FOREWORD

This booklet is designed to make available to the public in a convenient form, the chief submissions which have been made to the Royal Commission on Transportation on behalf of the Government of Manitoba.

The present Royal Commission is a direct outgrowth of the freight rate hearings and discussions which have taken place during the past three years. This fact may not be readily discernible to those who have not followed closely the freight rate proceedings which have been conducted by the Provinces and the railways before the Board of Transport Commissioners and the Dominion Cabinet. The following summary of events and discussions since October, 1946, is, therefore, presented in the hope that it will provide a helpful background to this booklet containing the submissions of the Manitoba Government to the Royal Commission on Transportation.

OCT. 9, 1946—Railway Association of Canada applies to Board of Transport Commissioners for authority to raise by 30% all freight rates except:

- (A) rates on grain in Western Canada, which are set by the Federal Parliament;
- (B) rates on coal, in which case the Railways propose to increase on a per ton basis; and
- (C) international and related rates, where the increases authorized in the United States, apply.

OCT. 25, 1946—Manitoba files a formal statement of opposition to the granting of such an increase.

FEB. 11, 1947—Hearings of Board of Transport Commissioners open in Ottawa; Railways present evidence designed to show desperate financial need.

MAY 22, 1947—Regional hearings in each province begun by Board of Transport Commissioners.

JULY 22, 1947—Provinces begin reply to railways' case for additional revenue.

SEPT. 26, 1947—Railways begin rebuttal against provinces' financial evidence.

NOV. 18, 1947—Formal argument begun by railways and provinces.

DEC. 17, 1947—Formal argument concluded; decision reserved.

MARCH 29, 1948—Judgment handed down by the Board of Transport Commissioners granting a 21% increase in freight rates.

APRIL 7, 1948—Dominion Cabinet directs the Board to conduct a general freight rate investigation.

APRIL 28, 1948—Brief by the Provinces to the Dominion Cabinet, reviewing their objections to 21% freight rate increase and requesting a Royal Commission investigation of the whole Canadian freight rate structure and the machinery for deciding upon the level and structure of freight rates.

JULY 14, 1948—Wage increase of 17c per hour, retroactive to March 1st, granted to railway employees.

JULY 26, 1948—Brief by the Provinces to Federal Cabinet setting forth the reasons why an investigation of the freight rate structure by the Board was unsatisfactory and again requesting a Royal Commission inquiry. Formal appeal against 21% Judgment filed by the Provinces with the Dominion Cabinet.

JULY 28, 1948—Application by the railways for a further 30% general increase in freight rates.

AUG. 17, 1948—Announcement of 15% increase in competitive freight rates.

SEPT. 16, 1948—Announcement from Ottawa that a Royal Commission will be appointed to investigate economic policy questions affecting transportation in Canada.

SEPT. 27, 1948—Presentation to the Dominion Cabinet of arguments by Provinces and railways regarding appeal against 21% Judgment.

OCT. 15, 1948—Cabinet decision on Provinces' appeal instructs the Board of Transport Commissioners to review the 21% increase and to relate any revision of this increase to their decision on the railways' application for a further increase.

DEC. 28, 1948—Order-in-Council by Dominion Cabinet, appointing the personnel and stating the terms of reference of the Royal Commission.
 JAN. 11, 1949—Hearings begin at Ottawa on 30% application and reconsideration of the 21% increase.
 APRIL 5, 1949—Argument re 30% application and reconsideration of 21% increase concluded; decision reserved.
 JUNE 1, 1949—Regional hearings of the Royal Commission commence at Winnipeg.
 SEPT. 12, 1949—Provincial briefs submitted to Royal Commission.
 SEPT. 30, 1949—Judgment on 30% application and on review of 21% increase announced, stating that 21% increase should have been only 18% and granting interim increase on 30% application sufficient to raise rates 8% above level of rates after the 21% increase became effective, i.e. almost 31% above level of rates before April, 1948.
 OCT. 12, 1949—Railways' briefs submitted to Royal Commission.
 NOV. 1, 1949—Ottawa hearings of the Royal Commission to begin.

At various times during this period, hearings and discussions took place with respect to rates for particular commodities, or groups of commodities, or with respect to rates in particular areas.

The material in this booklet consists of the various submissions of the Manitoba Government to the Royal Commission. As stated in the letter forwarding the main submission to Ottawa, we have not dealt with all the matters which the Commission will be taking into consideration. Instead, these submissions have been limited to an expression of the views of the Manitoba Government on those situations regarding which we wish to suggest changes at the present time. In other words, the issues raised in our submissions are those upon which we are advocating changes.

There are, of course, other matters upon which others will be advocating changes and upon which we will contend that in the national interest the present situation is preferable to the change which is being advocated. Our submission on such matters will be developed and presented from time to time, as the matters are under discussion. For that reason it is not possible to include them in this bulletin, even though in some cases they are among the most important issues before the Royal Commission. One important question which falls into this category is the contention by the C. P. R. that substantial losses are resulting from the present rates on grain in Western Canada, and that grain rates should no longer be controlled by the Act of the Dominion Parliament which now holds western grain rates down to the level set by the Crow's Nest Pass Agreement. This contention was contained in the C. P. R. submission filed with the Royal Commission on Oct. 12, 1949, but it has not yet been formally submitted to the Commission, nor has there been an opportunity to cross-examine C. P. R. officials as to the basis of their contention.

On the question of grain rates, Manitoba's position was stated in the June 1st brief. Our contentions were:

- (1) Rates now being charged in Western Canada, including grain rates, return a satisfactory revenue to the railways over and above operating costs in the area;
- (2) The original cost of constructing railways in the Prairie area and the present cost of maintaining and operating these railways are much lower than corresponding costs in other parts of Canada.

It is therefore Manitoba's conviction that the present grain rates, although alleged by many to be "low rates" are, in fact, not "low" when compared with the costs to the railways for carrying the traffic involved, and that they provide a good return to the railways for the

service which the railways perform. Even if this were not so, it would nevertheless be true that the interests of Canada as a whole require that, on our greatest export commodity, every effort should be made to see that the producer is not under the handicap of paying excessive transportation costs which would make it more difficult for him to compete in the markets of the world.

The three documents which are contained in this present booklet should be looked upon as three parts of a complete presentation.

The *BRIEF OF POINTS* was filed with the Royal Commission, on April 28, 1949. It gives, in a very condensed form, a statement of some of the main issues with which Manitoba proposed to be concerned in its later, more complete, submission.

The *JUNE 1st BRIEF*, presented at the regional hearings in Winnipeg, devoted its main attention to:

- (a) the importance of transportation costs to the people of Western Canada; and
- (b) the manner in which high and inflexible transportation costs would impair the ability of Western primary products to compete in the markets of the world.

The June 1st Brief also gave a review of the issues raised in the Brief of Points and elaborated upon some of them.

The *MAIN SUBMISSION* was filed with the Royal Commission on Sept. 12, 1949, and will be formally presented to them in November.

Chapters I and II set out Manitoba's general approach to railway transportation matters and review the changes in Canadian attitudes in that regard in the past. The contention is that, in the past, the people of Canada were so concerned with the necessity of securing railway transportation facilities that, except in the more flagrant cases, they were prepared to overlook abuses and inequalities in the provision of such facilities and in the charges for them, but that, with the passage of time, the emphasis changed from that of the provision of railway service, to that of making the best possible use of existing railway facilities, with the result that there is need for a new statement of the powers and responsibilities of the Board which regulates railways to ensure that the public interest is protected.

Chapters III, IV, V and VI deal with the standard of railway service and the cost of providing that service. The contention is that the people of Canada must be prepared to pay for the railway service provided in Canada, but that this carries the necessary implication that the Board, which is supervising railway operations on behalf of the public, should have the primary responsibility for deciding upon the standard of railway service, and should have the authority and responsibility to set up a more adequate method of determining the real cost of providing that service.

Chapter VII deals with the financial position of the Company and the methods of paying for improvements in railway facilities. The contention is that in these matters the primary objective should be to secure the money to pay for improvements at the least possible cost to those who must pay for the service, and that, consequently, it may be necessary to consider the advisability of inaugurating certain practices which are not available to private corporations generally.

Chapters VIII and IX deal with the relationship between railway freight rates and the distance which the traffic moves, and with the

general characteristics of the Canadian freight rate structure. The contention is that the fundamental principle of the Canadian railway freight rate structure should be that freight rates charged for the same traffic over the same distance, should be equal except where costs, competition, the needs of national development, or other circumstances require some deviation from that principle, and that there should be established a periodic review of all rates which deviate from the uniform basic structure.

Chapter X deals with regional considerations. The contention is that the rate discrimination against Western Canada should be eliminated immediately, and that Western Canada should no longer be called upon to pay a level of freight rates so high that the railways are able to pay their operating costs in Western Canada and provide a considerable amount in addition, to meet expenses for which the East has not been paying its proper share.

Chapter XI deals with the administrative organization and the financial and statistical records which will be required for the purpose of applying the principles which have been advocated in the other chapters. The contention is that the necessary administrative and record arrangements should be made in order that the Board can reach sound decisions on all matters concerning railway policy.

From the summary of events listed at the beginning of this foreword, it will be seen that the railways first applied for an increase of 30%, and some 17 months later they were awarded 21%. They then applied for a further 20% increase and 14 months later they were awarded 8% on that application. These facts, in themselves, demonstrate the extent to which our opposition to freight rate increases has been justified by the decisions of the Board of Transport Commissioners. The soundness of our opposition is further demonstrated by the fact that this latest 8% freight rate increase is specifically stated to be merely an interim increase subject to further review by the Board after it has an opportunity to further study several of the issues raised by the Provinces and after the Royal Commission has presented its recommendations.

When, in April, 1948, the railways were authorized to increase freight rates by 21%, the Provincial Governments appealed against that decision to the Dominion Cabinet. The basis of that appeal was that the Board of Transport Commissioners had failed to recognize certain important principles which the Provinces contended must underlie the making of freight rates in Canada. The Dominion Government upheld our appeal to the extent of directing the Board of Transport Commissioners to reconsider the issues raised by the Provinces. They also agreed to our contention that there was need for some body to review the powers, organization and policies of the Board of Transport Commissioners and as result, the present Royal Commission was appointed.

By appointing this Royal Commission, the Dominion Government has provided a forum for discussion and testing opinions as to the strength and weakness of the present Canadian freight rate structure and of the Board which regulates it. The Manitoba Government welcomes such a forum and feels confident that out of its deliberations there will emerge changes which are long overdue and which will eliminate discriminations and dissatisfactions which have long disturbed the people of Western Canada.



PROVINCE OF MANITOBA

BRIEF OF POINTS

PRESENTED TO

THE ROYAL COMMISSION
ON TRANSPORTATION



WINNIPEG, MANITOBA

APRIL 28, 1949

BRIEF OF POINTS

This brief of points is submitted to the Royal Commission on Transportation in accordance with the request in the letter of February 25, 1949, from Hon Mr W F A Turgeon, Chairman of the Royal Commission on Transportation to Hon. D L Campbell, Premier of Manitoba, and in accordance with the later date for submissions named in the letter of April 21, 1949, from the Assistant Secretary of the Commission.

The Government of Manitoba, together with the Governments of six other Provinces, requested the Dominion Government to appoint such a Royal Commission and wishes at this time to record the fact that it welcomes the opportunity to make submissions on transportation matters to a Commission consisting of men of such wide experience with powers as broad as those set out in Order-in-Council P.C. 6033, dated 29th December 1948.

It is the intention of the Manitoba Government to make as full a submission as possible on all matters of concern to the Government and people of Manitoba in the range of subjects upon which the Royal Commission is asked to make recommendations. This brief of points is, however, merely a preliminary submission, for the purpose of acquainting the Commission and other interested parties with the matters which we propose to include in our submission. We would like to reserve the right to include other matters in our more complete submission if further study should make it clear to us that it is advisable to do so, or if the submissions made to the Commission by other parties should be of such a nature that in the interests of Manitoba we should wish to deal with them.

At the present time we wish to indicate to the Commission some of the subjects upon which the Manitoba Government will be making representations. For the sake of clarity and brevity, the various points have been enumerated. The order in which the points appear should not be interpreted to mean that they appear in order of importance.

1. The national system of railway transportation in Canada, including all the railway companies, is one of the fundamental bases of the general welfare of Canada and consequently it is essential that this service should be maintained at a standard which is sufficient to provide adequate transportation for the products of Canada, but it is equally essential that the standard of transportation services should not be one which is beyond the capacity of the people of Canada to pay for.
2. Since the railway transportation service must be paid for by the people of Canada, it is essential that some system be established whereby the expenditures and revenues of the railway system can be carefully scrutinized from the point of view of the public.

interest. In order that the level of railway rates can be determined on a basis which is fair both to the railways and to the public a set of principles and a system of records must be adopted for use in determining what expenses are properly chargeable against those who use railway services and what standard of maintenance and improvements are desirable and necessary in the interests of Canada as a whole.

3. It is our submission that it should be a fundamental principle of the Canadian railway freight rate structure that freight rates charged for the same traffic over the same distance should be equal except where costs, competition, the needs of national development or other circumstances require some deviation from that principle.
4. In our view the powers and duties of the Board of Transport Commissioners should be clarified and widened in an amended Act so that they can exercise more effective control over special commodity rates, competitive rates, distributing rates, agreed charges, etc. to the end that the interests of the public in uniformity of rates should be protected so far as possible.
5. It is our view that in considering the organization of the Board which is to administer the Act an amended provision should be made to equip it with an adequate administrative staff and organization, and to require it on its own motion to review and adjust rates which deviate from the general principle of rate uniformity.
6. We submit that the Railway Act should give greater indication of the principles to be followed in the determination of the general level of freight rates. It is not our view that these principles must be set out exhaustively and rigidly applied, but it is very definitely our view that something more complete is required than the provisions of Section 325 which in essence, merely state that rates should be fair and reasonable without giving any guidance as to how these terms are to be interpreted.
7. In our view one of the disadvantages which Western Canada suffers under the present rate structure arises from the fact that the average level of rates in Western Canada exceeds the average level of rates in Eastern Canada. In this regard we refer to the overall average level of all rates and not to the rate or rates for any particular commodity. We submit that this disadvantage should be eliminated.
8. It is our view that all rates, but in particular those which are substantially below the average level of rates for comparable commodities should be carefully reviewed and that those which are uneconomically low should be raised before any action is taken to raise the general level of all rates. We would define, in broad terms, the phrase "uneconomically low" to mean rates which are so low in relation to the cost of handling the traffic

involved and in relation to the competitive situation, that the general welfare of the railways, the shippers and the public would be better served if the rates were higher. The actual level of the rates is not conclusive but if any rate is very low as compared with the general average of rates for comparable commodities it is our submission that that rate should be investigated. In this connection it is our view that investigation would establish that a substantial number of these rates which are alleged to be low are not uneconomical and are in fact, necessary for the welfare of Canada. It is our submission that this is the situation with respect to the rates for grain and other primary products in Western Canada.

9. On a more technical matter it is our submission that the class rate structure as it now applies in Canada should be carefully studied together with certain recent changes directed by the Interstate Commerce Commission of the United States with a view to determining whether or not it would be advisable to establish an additional number of classes in Canada at rates lower than the present 10th class rate so that a greater percentage of the traffic will move at class rates and will consequently be under more adequate control by the Board of Transport Commissioners.
10. It is our view that in the interests of the public, and particularly in the interests of adequate control and inspection, depreciation as used in the determination of Canadian freight rates should be calculated on a straight line basis wherever it is allowed.
11. It is our view that an accounting division of the C.P.R. corporation should be made between railway operations and non railway operations both for capital purposes and for the purposes of current revenue and expenses. It is our submission that certain activities which are not completely railway operations, are so closely allied with the railway that for operating purposes they should be considered as part of the system.
12. It is our view that there should be a uniform system of accounts among all the Canadian railways to the end that it will be possible to more adequately compare the results of the different companies and to secure more complete information as to expenditures for particular purposes and revenues from particular sources. It is our further view that the Board should be equipped with adequate staff for supervisory and analytical work in this field so that the Board will have available to it individuals who are thoroughly familiar with the Railway accounts not only in the form in which they are finally published but also in much of the detail of the actual preparation of the accounts. In one regard we are particularly concerned, namely the regional divisions which are used by the two major railways. It is our view that these divisions should be set up in such a way that it is possible to secure an accurate record of operating revenues and operating expenses in the major geographic areas

of Canada. Specifically we feel that such information should be available for the Prairie regions as distinct from the rest of Canada.

13. It is our view that a thorough review of the statistical and accounting reports which the railways provide to the Dominion Bureau of Statistics and to the Board of Transport Commissioners, should be made with a view to having these reports reorganized and improved to the end that they will provide more adequate material for use in future rate cases.
14. With respect to the Hudson Bay Railway it is our submission that in the interests of Western Canada in general and Manitoba in particular the maximum effort should be made to utilize that railroad to the greatest possible extent as a means of moving farm products to the markets of the world as a means of bringing supplies from Europe and elsewhere and as a means of improving transportation facilities for the rapidly expanding mineral industries in Northern Manitoba.

These fourteen items represent the issues upon which it is the present intention of the Manitoba Government to make submissions. As pointed out earlier we would like to reserve the right to add any other items which may upon further study call for comment and we would also like to reserve the right to deal with any other matters which may be raised by other parties in the course of your enquiry.

There are certain other matters which we would like to draw to the attention of your Commission at the present time. These are matters which involve a very great amount of careful statistical and accounting research. The magnitude of the inquiries in question and the relatively large staff which would be required to carry them out is such that they are completely beyond the capacity of any one party or any group of Provinces to undertake. Furthermore the fundamental nature of such studies makes it highly undesirable that they should be undertaken by one of the interested parties. We are of the view that in the interests of Canada it is essential that such studies should be made and we therefore respectfully suggest that your Commission should recruit its technical staff to undertake them and should make the results available at the earliest possible date. We would mention specifically four such matters:

1. It is our view that it is essential that at an early date some method should be established whereby it is possible to compare the level of freight rates in the different parts of Canada and to determine the volume of traffic moving at the various rates and groups of rates. In the hearings before the Board of Transport Commissioners both on the 30% Case and on the 20% Case the Railways upon several occasions indicated that to their knowledge there was no satisfactory method of making such a measurement as to rate levels. They further indicated that they had no accurate information as to the volume of traffic moving at the different rate levels. Exhibit 238 in the

20% Case was an attempt to establish a method of comparing rate levels based upon methods which have been developed by the Interstate Commerce Commission in the United States and which are spelled out in detail in Senate Document 63 (70th Congress, 1st Session, June 8, 1943). It is our understanding that some study toward this end is now under way by the Railways and the Board of Transport Commissioners but we are not aware of the details of the study or of the ease to which it may be put. It is our respectful view that your Commission should at an early date take steps to deal with matters of this type and should either institute studies of its own or make use of the results of other studies.

2. A measure of the difference in rate levels will not, however, answer the more fundamental question as to whether or not these differences are just. Consideration must also be given to the competitive situation and to the profitability of the rates. It is therefore our view that some satisfactory measure of profitability should be established at an early date and for that purpose again a major research study would be required. We therefore respectfully suggest that such a study should be put under way immediately by your technical staff. Such a study should deal with profitability in the various regions of Canada and it may be that it should also deal with the profitability of the rates for certain groups of products or certain types of traffic. We are not suggesting a study of the profitability of individual rates or of individual lines of railway.

3. One matter which formed the basis of much evidence and argument in both the 30% Case and the 20% Case was the question of maintenance both as to the standard of maintenance which is desirable in the public interest and also the extent to which maintenance expenses should be expected to increase with increased volume of traffic. Considerable evidence was adduced as to the extent to which operating expenses and/or maintenance expenses had increased in other periods of increasing traffic or in other railway systems. Very little, however, was done with respect to the extent to which such increased expenditures were essential or desirable in the public interest. It is our respectful view that your Commission should undertake a study for the purpose of laying down principles to be followed in these matters in the future.

4. Subsection (a) of Section 2 of Order in Council P.C. 6033, directs that your Commission should "review the capital structure of the Canadian National Railway Company" and make recommendations thereon. It is our view that in addition to anything done with regard to the capital structure of the C.N.R. certain of the current charges of the C.N.R. should also be considered. In this connection we are of the view that attention should be directed to certain lines of the C.N.R. which are operated primarily in the interests of defence or national policy. At the present time the Hudson Bay Railway is operated by the

C.N.R. but any losses made on that Railway are charged against the Dominion Treasury. It is therefore our respectful submission that your Commission should institute the studies necessary to decide as to whether that principle should be applied to several branches of the C.N.R. which are operated for purposes other than those which would ordinarily apply to a railway operated for commercial purposes.

DATED at the City of Winnipeg, in the Province of Manitoba,
this 28th day of April, 1949.

The Government of Manitoba,

Douglas Campbell.

Premier.



PROVINCE OF MANITOBA

Submissions at Regional Hearing

to

THE ROYAL COMMISSION ON TRANSPORTATION

on behalf of

THE GOVERNMENT OF THE PROVINCE OF MANITOBA

by

The Honorable Douglas L. Campbell, Premier



WINNIPEG, MANITOBA

JUNE 1st, 1949

Mr. Chairman and Commissioners:

I consider it a high honor and also a great responsibility to make the first presentation for the consideration of your Commission as it begins its public hearings on the extremely important matters which have been referred to it.

Before beginning the remarks which I wish to direct towards the questions with which you are primarily concerned, I would like to express to the Commission a sincere welcome to the Province of Manitoba and to Western Canada as a whole. I think that every Province of Canada has good reason to be interested in the work of your Commission because all must recognize the magnitude of the task which you have undertaken. No province realizes this more than Manitoba, situated as we are in the very heart of this continent. We are, therefore, very glad that a Commission of this type has been appointed, and we appreciate the fact that men of the capacity, integrity and experience of the Members of this Commission have, out of their very busy lives, agreed to serve on it, in order to give their time and talents toward the solution of matters of great public concern.

Scope of Inquiry

At the outset of my presentation I would like to quote part of one sentence from P.C. 8633—the Order-in-Council setting out the powers and responsibilities of your Commission. The second sentence of that Order-in-Council states that it has been decided that an inquiry should be made "in order that all questions of economic policy within the jurisdiction of Parliament arising out of the operation and maintenance of national transportation may be examined and reported upon." Even the most casual examination of that sentence makes it clear that the Commission that is to undertake such an inquiry must inevitably deal with some of the most fundamental economic facts of the Canadian nation. The decisions and recommendations which you will make will influence and perhaps determine the direction of our national development in many fields for years to come. Sound decisions and recommendations in this regard will indeed remove handicaps which have retarded the agricultural and industrial development of certain areas for long periods of time, and also eliminate regional discriminations which have caused friction within the Canadian federation almost since that federation was first created.

As I have already mentioned, the responsibility inherent in the first brief to your Commission is one which the Province of Manitoba fully realizes. In this regard we recall with pride that in the deliberations of the Rowell-Sirois Commission the first briefs were presented by this Government at sittings also held here in the City of Winnipeg.

Transportation in the Canadian Economy

In 1948 the two great railway systems, the C P R and the C N R collected \$778 million from the people of Canada in payment for the movement of freight, passengers, express and mail and for the provision of dining and sleeping car services. Unfortunately, comparable figures are not available for all the railways of Canada or for other forms of transportation for the year 1948 but for the year 1947 the people of Canada paid \$91 million to the other railways. In 1947 the amount paid to airlines was \$27 million. In the case of truck and bus transport it is necessary to go back to 1946 for the most recent figures and in that year the amount paid to commercial buses and trucks was \$102 million. The total of the above figures is \$998 million per year. However, in order to arrive at a figure to show the total amount paid for transportation in Canada, the amount of \$998 million would of course be raised to include amounts paid for operating private motor cars and trucks owned by the person whose goods are being moved. In addition it would have to be raised to include the amount paid for street railway transportation and for canal and water transportation. Even if these large items are ignored, however, it is clear that at present Canada is spending well over \$1 billion per year on rail, bus, air and commercial truck transportation, or approximately \$7.80 out of every \$100 of national income.

Some perspective as to the significance of this figure can be gained by noting that it is approximately one-half the total amount spent by the Dominion Government last year. Another significant comparison is the fact that the total to be collected by the Dominion Government for income tax on individuals and corporations this year is estimated at \$1,160 million or approximately the same amount which would be paid for transportation. One other comparison is also significant, namely the total amount spent for the services provided by all the Provincial governments in Canada. The total of such expenditures in 1948 was \$591 million or approximately 60% of the amount paid for transportation services. I might point out that in all these references, the figures for Newfoundland are excluded.

Still further indication of the tremendous importance to Canada of her transportation facilities is the fact that the Canadian population of 12,800,000 is spread over an area larger than any other country in the world except Soviet Russia and China. Much has been said and written about the tremendous area which is available for the use of such a relatively small number of people but on the other hand this vast area means that a very great part of the total effort of these 12,800,000 people must be devoted to the sheer physical movement of themselves and their goods back and forth across distances which are probably greater than those which must be overcome by any other nation of the world. If one considers railways alone, the people of Canada are supporting 4.4 miles of railway track per thousand of population, while the people of the United States

are supporting only 27 miles per thousand of population. Another view of this same matter is to look at the proportion of the total national income which is used to pay for transportation services. Since figures are not available for all transportation, it is necessary to use railways only. As I have already pointed out, the 1948 revenue of the C N R and C P R amounted to \$778 million, while in 1947 the revenue of other railways was \$91 million. The total of these two items is \$869 million, or 6.8% of the National Income of Canada for 1948. In the United States the total revenue of Class I railroads in 1948 was \$9,872 million, or 4.1% of the National Income of the United States.

As a further indicator of the importance of transportation charges in Canada, I would like to refer to one exhibit in the 20% Case, namely Exhibit 49-134 which shows that since July 1, 1946, freight rates on the C P R have increased by 27.0% on the average. That Exhibit also shows that in the case of the C P R it has been estimated that additional revenue resulting from these freight rate increases will be almost \$48.5 million in 1949. Applying the same 27% increase in rates to the C N R freight revenue indicates that freight rate increases will amount to \$74.7 million for the C N R in 1949. In other words the two railways together will in 1949 collect \$143 million more from their present freight rates than they would have collected from the same volume of traffic if it were carried at the rates which were in effect prior to July 1st, 1946.

Transportation in the Prairie Economy

This, then, is a brief comment on the transportation situation in Canada as a whole. I would like now to indicate, also very briefly the Prairie Provinces position. In the three Prairie Provinces there are 2½ million people living in an area which for many years was devoted almost exclusively to the production of primary agricultural products for sale in the markets of the world. More recently there has been an increasing amount of diversification, but it is still fundamentally true that the prosperity of the Prairies is in direct proportion to the prosperity of agriculture. The markets for surplus agricultural commodities are in Eastern Canada, in Europe and in Eastern United States. The shipment from Western farms to these markets requires transportation over distances which are measured in thousands of miles and which are probably greater than the distances involved in the transportation to market of the products of any other comparable area in the world. For example, the distances from Brandon, the largest centre in Western Manitoba, are as follows: to Vancouver 1,340 miles, to Montreal 1,492 miles, to Halifax 2,332 miles.

Our two great competitors on the markets of the world are Australia and Argentina. In both those countries the rail haul to seaboard is short as compared to our rail haul. It is true that the total distances from the market of the United Kingdom are greater than in our case, but the fractions of these total distances which are

made up of ocean mileage are much greater. In these shipments by ocean transport Argentina and Australia have the advantage of the lower costs involved and in addition the competition among ocean carriers protects them against the danger of unreasonably high rates. With us the importance of the rail haul is much greater and it is in that part of the total distance that we feel that steps are necessary to offset any monopolistic tendencies of the railways to keep rates on carriage to seaboard at an unreasonably high level.

This, then, is the general situation with respect to the shipment of agricultural products to market. In the case of supplies for agriculture, production or for the personal needs of farmers and others living in Western Canada, the transportation problem is of almost equal magnitude, because the vast majority of those supplies must be brought great distances, either in the form of raw materials or of finished products, usually from Eastern Canada, the United States or abroad.

Unfortunately no precise statistics are available by which it would be possible to make an accurate estimate of the total transportation bill of the Prairie Provinces as a whole or of Manitoba in particular. One point is clear however. The transportation cost to the people of this area per capita is very much greater than the average for Canada as a whole. As I have already mentioned, the transportation bill for Canada as a whole amounts to approximately \$1,000 million per year or \$78 per capita per year. It is our view that in the Prairies the cost of transportation is very much greater per capita than the Canadian average because of the long distances and because of the fact that on both our shipments out and our shipments in the people of the Prairies are forced to bear the bulk of the transportation costs on the heavy tonnage involved. Multiplying this per capita figure by the population of Manitoba gives \$59 million, which is 12 3/4 times as large as the Manitoba budget for the current year and it is therefore our opinion that the transportation burden borne by the people of Manitoba every year must be at least twice as large as the provincial budget.

Public Regulation of Transportation Charges

These facts alone without further elaboration will indicate that the question of transportation and the question of the level and structure of the rates to be charged for the movement of commodities in a country such as Canada, are much too important to be left in the hands of any one interested party, whether that party be the management of the railway system, the shippers who make use of that system, the employees who operate and maintain that system or any other group which is directly concerned. This fact was recognized almost at the outset of railway construction and as a consequence in the early years of Canadian history control over these matters was exercised by the Railway Committee of the Privy Council of Canada. Almost 50 years ago—in 1903 to be exact—the powers of the Railway Committee were transferred to the newly

MANITOBA'S LONG STANDING CONCERN OVER TRANSPORTATION MATTERS

created Board of Railway Commissioners which later became the Board of Transport Commissioners. It is our view that this principle is fundamentally sound and that matters of this type should be firmly under the control of some body acting on behalf of the people of Canada as a whole, rather than any one or more interested groups.

In the early years of its existence, the Board of Railway Commissioners was able to do a good deal of very effective work in controlling the excesses which might otherwise have developed and in alleviating discrimination against certain areas. It was perhaps inevitable, however, that with the passage of time the Board should begin to feel itself bound to follow the precedents of its old decisions regardless of whether or not conditions had changed in the meantime.

In our opinion the time has now arrived when steps should be taken to free the Board from the self-imposed restrictions placed upon it by its past decisions. For that reason we feel that among the matters with which you will be concerned the paramount questions are those which deal with the redrafting of the Railway Act in such a manner as to clarify and re-define the powers and duties of the Board of Transport Commissioners and the principles and organization to be used by it in administering those powers and carrying out those duties.

Other Submissions by Manitoba

Perhaps I should at this point, briefly outline the mechanics which we propose to follow in presenting the views of the Manitoba Government. On April 29th I forwarded to you a document which we called a Brief of Points. That document outlined very briefly our views on certain of the major matters with which you will be concerned. At that time we made it clear that we would make more detailed submissions at a later date. In my remarks today I propose to deal with four major issues and to indicate in some detail our views on them. The remainder of the points and any other matters which may arise as a result of the hearings which you will be holding in various cities and as a result of the studies which you and we will be undertaking, will be dealt with in a more detailed brief to be submitted at Ottawa later.

I turn now to the formal part of the submission of the Government of Manitoba.

Manitoba's Long Standing Concern Over Transportation Matters

From the very beginning of settlement in the area which ultimately became the Provinces of Manitoba, Saskatchewan and Alberta, it was recognized that the first requirement would be some reliable means of transport for bringing in the supplies of goods which could not be produced in the area and for shipping out the goods to be sold to pay for the goods brought in. In the very earliest days this

trade was carried on by lake and river transport but was thereby limited to small volume. It was soon realized that no substantial outboarded people could attain a high standard of living in the area until a railway was provided. The great dependence of the people of the area upon rail transport was therefore seen from the beginning but that dependence carried with it the constant threat that the railways would use their strong position to impose monopolistic rates which would restrict the development of trade and thereby handicap and delay the development of the area but also the railways themselves. For this reason the people of Western Canada have always been in the forefront of those who have opposed the efforts of the railways to gain advantage of their quasi-monopolistic position by imposing high freight rates which must be paid because there is no alternative transportation for the great bulk of the commodities which the people of the Prairies buy and sell. It is for this reason that in the hearings before the Board of Transport Commissioners and in the discussions which have taken place on transportation policy generally the Province of Manitoba, the City of Winnipeg and various groups in Manitoba have always taken a very active part.

This became clear even before the first transcontinental railway was completed for in 1880 the Government of Manitoba entered into active opposition to the proposition by which the Dominion Government restricted the construction of railways close south of the main line of the C. P. R. and for several years Manitoba used strong efforts to encourage the building of railways in that very area. In 1891 the so-called Manitoba Agreement was signed between the Canadian Northern Railway and the Province of Manitoba under which the Manitoba Government took the authority to set freight rates in Manitoba and between Manitoba and the head of Lake Superior in return for guaranteeing certain bonds of the Canadian Northern Railway. In the period from 1917 to 1922 Manitoba was active in its opposition to the various rate increase applications and in its support of having rates in Western Canada brought to a level more nearly comparable with the rates in Eastern Canada. In 1922-24 Manitoba took a vigorous part in the campaign to have the C. P. R. rates reestablished in Western Canada. In the period from 1946 to the present Manitoba has worked actively with the three Provinces from the extreme west and the three Provinces from the extreme east in all matters which have been under consideration by the Board of Transport Commissioners and the Dominion Government.

I have given this short review of Manitoba's continued activity in connection with Freight Rate questions for the purpose of making clear that the interest of the people of the Prairie and of Manitoba in particular in matters of transportation and particularly of the charges for transportation is not a passing phase which can be lightly regarded. Rather it is one of the fundamental issues which have concerned our people over the whole period since the West was opened to settlement. I have indicated that one of the reasons for this deep concern is the fact that in the Prairie area and for the type

of commodities which are of greatest concern to the people in that area, the railways have an almost complete monopoly, and there is really no alternative form of transportation available.

Markets for Agricultural Products

Another fundamental consideration in this connection is the nature of the market for our agricultural products. In wheat and in other grains, in livestock products generally, including dairy products, in the products of our base metal mines, in the products of our lake fisheries and our pulp and paper industry, Manitoba has geared its whole production program to a market many times larger than the local market in Manitoba. Many of these surplus products must seek the market in export trade; they must be sold at a price that the buyer in the United Kingdom or the Eastern United States or elsewhere is satisfied to pay in the light of what he would have to pay for corresponding products bought elsewhere. In other words, these products must be sold in a highly competitive international market. The result is that the price is determined to a very large extent by factors other than the cost of transporting them to market. Consequently, the return to the producer is determined almost entirely by the world price less the cost of transporting them to market. Therefore, if transport costs are too high the return to the producer is reduced by the amount by which they are excessive. This same situation exists in respect to western primary products which are sold in the great cities of Eastern Canada in competition with products from other parts of our own country or from abroad.

Supplies Which Must Be Brought In

In the case of supplies which are brought into Manitoba, the market situation is very different but the result again is that the cost of transportation falls in the main upon the people of Western Canada. The basic requirements of our people for the production of agricultural or other primary products or for their clothing, furniture and other household supplies must be brought in, whether they live on farms, in our smaller towns and villages or in our cities. To an almost equal extent these products are sold on the basis of a factory price plus the cost of transport. The primary market is in the great cities of Eastern Canada or the United States or Great Britain close to the producing factories. The price is determined by what can be secured in those markets, and the supplies which are shipped to Western Canada are sold there at the eastern price plus the cost of transportation.

The result is that any unnecessary charges for transportation fall upon the people of Western Canada twice: first, upon their income from the products which they sell and again, upon their expenditures for the products which they buy. Or as it has been stated, Western Canada pays these charges both coming and going.

Fluctuating Income and Rigid Costs

It is no mere rhetoric to say that Western Canada is a country of widely fluctuating income. Anyone who has lived through the experience of the last 25 years needs no statistical proof of this fact. One set of figures may be of interest however, namely the average cash income per farm in Western Canada in recent years. In 1928 the figure was \$2,206, in 1933 it was down to \$406. In the war years it went up rapidly to a peak of \$3,650 in 1944. For the latest year for which figures are available namely 1947 the figure was \$3,622. It has been estimated that for 1948 the figure will be higher again. These figures are for gross cash income. Out of that income the farmer must pay his operating costs and during the bad years these operating costs could be cut, if at all only by a much smaller percentage than the percentage decline in cash income. The result, therefore, was that in terms of net income available to the farmer for his own use, the fluctuations were much greater than those shown in the above figures.

One of the great causes of this extreme fluctuation was, of course, the crop failures of the 1930's, but it is significant that even in those years the volume of production on western farms varied much less than grain prices. Even in the absence of the fluctuations resulting from crop conditions, Western Canada has always been subject to great variations in income resulting from fluctuations in price and this instability is greatly aggravated by the fact that farm costs are much more rigid and cannot be proportionately reduced in periods of farm income decline. One of the most important and one of the most rigid of farm costs is that of transporting supplies and farm products. By way of illustration I would like to refer to wheat, although the record of other farm products and of the primary products of our mines, forests and lakes, is not materially different.

In the case of No. 1 Northern wheat, the Dominion Bureau of Statistics reports that the average price at Fort William was \$1.46 per bushel in both crop years 1926-27 and 1927-28. In 1932-33 on the other hand, it was only 54c. The price rose again to an average of \$1.32 in 1937-38. In the crop year 1938-39 it was down to 62c and remained below a dollar per bushel until 1943-44. At the present time farmers are being paid on the basis of \$1.75 per bushel. The point I would like to make is that during this whole period in which the price fluctuated between \$1.75 and 54c per bushel and in which there were 11 years when the price averaged less than a dollar per bushel the charges collected by the railways remained completely rigid and unchanged. A farmer located in Western Manitoba at a point paying 10c per bushel as his freight rate to Fort William has therefore experienced the following situation.

FLUCTUATING INCOME AND ROAD COSTS

	<i>Fort William Price</i>	<i>Railway Received</i>	<i>Farmer Received</i>
1926-27,	\$1.46	\$0.10	\$1.36
1932-3354	.10	.44
1937-38	1.52	.10	1.22
1938-3982	.10	.52
1943-44	1.23	.10	1.13
Present	1.75	.10	1.65

The transportation charges are thus completely rigid regardless of the price of the product. Furthermore, they are the first charges paid by the farmer out of his returns from his crop and are in fact deducted from his returns before he receives them. The railways are thus guaranteed their charges ahead of any other production cost whether it be the wages paid for necessary help, the taxes paid to support schools and other local services, the prices paid for machinery, gasoline, etc., which must be paid before the farmer has any income for his own use.

It is in our view essential that in considering these matters of transportation, and particularly transportation charges, special attention should be directed to this record of fluctuation. One reason for reminding your Commission of it is that there has recently been a good deal of discussion regarding the relatively high prices for agriculture products and the relative prosperity of farmers generally, and this has been used as a basis for an argument that they can well afford to pay higher freight rates.

May I suggest that such an argument is fundamentally unsound because it overlooks:

(1) the fact that the present high level of agricultural prices and of farm income is closely associated with the world-wide shortage of food commodities which existed at the end of the war and that the longer run prospects in this regard do not seem to indicate a continuance of this situation,

(2) the fact that costs of production have risen greatly over the same period thereby curtailing to a larger extent than is generally realized, the benefit to the farmer of the higher income,

(3) the fact that if transportation costs are allowed to reflect this high current level of prices and income it will be a very difficult matter if not completely impossible to adjust them downward if agriculture prices decline in the future.

For these reasons it seems to us that it would be disastrous for western agriculture in particular, for the welfare of Canada as a whole and for the welfare of the railways themselves as well as the other transportation systems, if the present relatively prosperous conditions were used as the basis for a scale of transportation charges to be paid by Canadians at a level which they would find impossible to continue to pay in the future.

Canadian Trade Policy:

One other matter should not be overlooked in this connection, namely the influence upon Western Canada of the national policy which has directed Canadian trade into east-west channels in an effort to build up a national trading system. One aspect of this policy has been the building of an elaborate set of railway lines through the difficult construction area north of the Great Lakes.

Another aspect has been the tariff policy which has prevented the people of Western Canada from following their natural trading route to the south through the Mississippi Valley and the Chicago area. One result of that policy has been to guarantee the Canadian railways a volume of traffic which would not otherwise have been theirs. This in turn has added to the bargaining strength of the Canadian railways and has bolstered up their already broad monopolistic position in Western Canadian transport. Another effect of it has been to call upon the people of Western Canada to pay prices for their supplies substantially higher than would have been necessary if they had been free to buy directly from the United States. We realize, of course, that your Commission is not called upon to deal with tariff matters, but we would like to record the fact that one of the important factors in the present transportation problem of Western Canada is the manner in which trade has been directed through Canadian transportation facilities as part of the national policy of Canada. Since this is the situation we of Western Canada feel that it is our right to be fully protected against any attempt to abuse the strong position which this national policy has created for the railways. We feel that particular care should be taken to see that the charges which are levied against us for transportation are kept to the absolute minimum which is consistent with the operation and maintenance of a satisfactory standard of transportation service for the type of product and the operating conditions with which we are concerned.

These are some of the matters which in our view should underlie the deliberations of your Commission on the policies which you will recommend regarding the matters referred to you.

SUBMISSIONS.

I would like now to lay before you the major submissions of the Manitoba Government as to the type of recommendations which we feel that your Commission should make. For the sake of clarity I would divide this section of my remarks into four headings:

- (a) Our recommendations as to the necessity for a strong body acting in the interests of the public of Canada to exercise supervision over the operation of existing transportation facilities;
- (b) Our recommendations regarding the policy which that public body should administer in respect of the determination

of the revenue needs of existing transportation companies in the light of the expenditures necessarily made to maintain a standard of service satisfactory to the people of Canada,

(c) Our recommendations regarding the policy which that public body should administer in determining the type of rate structure to be applied in collecting from those who use the transportation system, the money to pay for the expenditures which are judged necessary,

(d) Our recommendations with respect to the Hudson Bay Railway

(A) Public Supervision

Our first recommendations concern the necessity for a strong public body to protect the interest of the public generally against the danger that the transportation system itself or the rate structure might be abused for the benefit of one or more interested parties. The Brief of Points which was filed with you by the Province of Manitoba deals with this question in the items which are numbered 4, 5, 6, 12 and 13, which read:

- Item 4. In our view, the powers and duties of the Board of Transport Commissioners should be clarified and widened in an amended Act, so that they can exercise more effective contro. over special commodity rates, competitive rates, distributing rates, agreed charges, etc., to the end that the interests of the public in uniformity of rates should be protected so far as possible.
- Item 5. It is our view that in considering the organization of the Board which is to administer the Act as amended, provision should be made to equip it with an adequate administrative staff and organization, and to require it on its own motion to review and adjust rates which deviate from the general principle of rate uniformity
- Item 6. We submit that the Railway Act should give greater indication of the principles to be followed in the determination of the general level of freight rates. It is not our view that these principles must be set out exhaustively and rigidly applied, but it is very definitely our view that something more complete is required than the provisions of Section 325 which, in essence, merely state that rates should be fair and reasonable without giving any guidance as to how these terms are to be interpreted.
- Item 12. It is our view that there should be a uniform system of accounts among all the Canadian railways to the end that it will be possible to more adequately compare

the results of the different companies and to secure more complete information as to expenditures for particular purposes and revenues from particular sources. It is our further view that the Board should be equipped with adequate staff for supervisory and analytical work in this field so that the Board will have available to it individuals who are thoroughly familiar with the Railway accounts, not only in the form in which they are finally published but also in much of the detail of the actual preparation of the accounts. In one regard we are particularly concerned, namely the regional divisions which are used by the two major railways. It is our view that these divisions should be set up in such a way that it is possible to secure an accurate record of operating revenues and operating expenses in the major geographic areas of Canada. Specifically we feel that such information should be available for the Prairie region as distinct from the rest of Canada.

- Item 15. It is our view that a thorough review of the statistical and accounting reports which the railways provide to the Dominion Bureau of Statistics and to the Board of Transport Commissioners, should be made with a view to having those reports reorganized and improved to the end that they will provide more adequate material for use in future rate cases.

In my remarks today at this opening session of your Commission I do not propose to elaborate our stand in this regard or to deal with the details which will inevitably require careful attention. I merely wish to record the fact that it is the considered view of the Province of Manitoba that the present Railway Act requires substantial amendment to bring it up to date and to insure that the Board of Transport Commissioners has adequate powers and adequate staff to enable it to fulfill the heavy responsibilities which must fall upon it under modern conditions. In Items 12 and 13 we express our view that in addition to anything that may be done to reconstitute the Board of Transport Commissioners itself, it is also essential that careful attention should be given to the form and availability of essential information which it will require in the performance of its duties.

(B) Principles for Determining Railway Operating Requirements

The second major submission which we wish to make is that your Commission should recommend the principles to be followed by this reconstituted Board of Transport Commissioners when it is called upon to reach a decision as to the amount of money which the railways require to provide adequate transportation for Canada. This matter is dealt with in our Brief of Points under Items 1, 2, 10 and 11.

- Item 1** The national system of railway transportation in Canada, including all the railway companies is one of the fundamental bases of the general welfare of Canada and consequently it is essential that this service should be maintained at a standard which is sufficient to provide adequate transportation for the products of Canada but it is equally essential that the standard of transportation services should not be one which is beyond the capacity of the people of Canada to pay for.
- Item 2** Since the railway transportation service must be paid for by the people of Canada it is essential that some system be established whereby the expenditures and revenues of the railway system can be carefully scrutinized from the point of view of the public interest in order that the level of railway rates can be determined on a basis which is fair both to the railways and to the public. A set of principles and a system of records must be adopted for use in determining what expenses are properly chargeable against those who use railway services and what standard of maintenance and improvements are desirable and necessary in the interests of Canada as a whole.
- Item 10** It is our view that in the interests of the public and particularly in the interests of adequate control and inspection, depreciation as used in the determination of Canadian freight rates should be calculated on a straight line basis wherever it is allowed.
- Item 11** It is our view that an accounting division of the C P R corporation should be made between railway operations and non railway operations both for capital purposes and for the purposes of current revenue and expenses. It is our submission that certain activities which are not completely railway operations, are so closely allied with the railways that for operating purposes they should be considered as part of the system.

A few words of elaboration may be in order in this connection. It is neither proper nor desirable that I should at this time attempt to lay down the details of the policy to be followed in this regard. I do, however, wish to emphasize one fundamental consideration, namely, that these matters should be approached from the point of view of the public of Canada and the welfare of Canada as a whole and should not be left entirely in the hands of the railways and their officials. During the recent freight rates cases a good deal of evidence and argument was advanced as to the propriety of maintenance charges as to the desirability of certain improvements as to the propriety of certain depreciation practices as well as other detailed accounting matters. Your Commission will have access to professional advice on these matters and various interested parties will no doubt present to you the opinion and recommendation of highly

qualified professional people regarding them. I wish to emphasize one fundamental point in this first brief, however, namely, that in determining these questions the criteria should be the capacity of the people of Canada to pay for transportation services and the effect which any decision will have upon the welfare of the people of Canada.

In dealing with this matter of the cost of providing adequate railway service I would like to refer to one other point. A great deal has been said in the press recently with respect to the increase in railway operating costs and among those who are not familiar with the situation it is commonly believed that cost increases alone justify the railways in their applications for rate increases. Let me therefore point out that the records show that in fact railway revenues have increased more than railway operating expenses. Exhibits 48-128 and 49-138 filed in the recent 20's case give the record for the two major railway systems since 1933. From these exhibits it is clear that the working expenses of the two railways have increased from \$280 million in 1939 to \$779 million at the present time or by \$479 million. A great deal of evidence and argument was directed by both the provinces and the railways in the question of whether or not that increase was necessary and proper. I do not propose to deal with those questions at this time but I do wish to point out that if one looks at gross earnings over the same period the increase is from \$324 million to \$609 million or by \$285 million. In other words the increase in gross earnings has been just slightly larger than the increase in working expenses since 1939. The point is that the mere fact of increased costs for raw materials and labor is not by itself conclusive in proving the necessity of freight rate increases. One must consider the total of the wage bill and other expenses and compare this total with gross earnings. When this is done it appears that the position of the railways has improved despite wage and price increases. In these comparisons I have used the figures submitted by the railways as their estimates of revenue and expenditures on the assumption that the traffic volume of 1948 would be handled at rates charged, wages paid and prices of materials which were in effect at January 1st 1949.

I do not wish to become involved in details regarding the relative importance of increases in operating costs resulting from wage increases, traffic volume increases, increased depreciation provisions, increased prices for materials or increases from other causes. I merely wish to point out that all these items should be reviewed from the point of view of the public good. The recent freight rate increases have been authorized to cover higher operating costs. One of the important causes of these higher operating costs is the higher wage bill of the railways as a result of increases granted their employees. Thus one of the issues is a decision as to whether Canadians should pay higher freight rates in order to ensure to many categories of railway employees a level of wages higher than that

paid for comparable work elsewhere throughout Canada. In our view this is a matter which is too important to be overlooked in your deliberations.

(C) Principles for Determining the Structure of Freight Rates

The third major recommendation which we wish to place before you is that your Commission should lay down the principles to be followed by the Board of Transport Commissioners in determining the structure of freight rates which are to be charged in Canada. It is self-evident that the rate structure so established should be such as to provide the necessary funds to allow the railways to cover the expenses which have been found necessary in accordance with the principles laid down in considering the points to which I have just referred and should at the same time be of such a nature that it imposes the least possible hardship upon those who use the transportation services and pay the charges. In particular it should be so constructed that it does not bear with undue weight upon the people in any area or upon those who are interested in any particular commodity. In our Brief of Points these matters were dealt with in Items 3, 7, 8 and 9.

"Item 3. It is our submission that it should be a fundamental principle of the Canadian railway freight rate structure that freight rates charged for the same traffic over the same distance should be equal, except where emts. competition the needs of national development or other circumstances require some deviation from that principle.

Item 7. In our view one of the disadvantages which Western Canada suffers under the present rate structure, arises from the fact that the average level of rates in Western Canada exceeds the average level of rates in Eastern Canada. In this regard we refer to the overall average level of all rates and not to the rate or rates for any particular commodity. We submit that this disadvantage should be eliminated.

Item 8. It is our view that all rates, but in particular those which are substantially below the average level of rates for comparable commodities, should be carefully reviewed and that those which are uneconomically low should be raised before any action is taken to raise the general level of all rates. We would define, in broad terms, the phrase "uneconomically low" to mean rates which are so low in relation to the cost of handling the traffic involved and in relation to the competitive situation, that the general welfare of the railways, the shippers and the public would be better served if the rates were higher. The actual level of

the rates is not conclusive but if any rate is very low as compared with the general average of rates for comparable commodities it is our submission that that rate should be investigated. In this connection it is our view that investigation would establish that a substantial number of these rates which are alleged to be low are not uneconomical and are, in fact, necessary for the welfare of Canada. It is our submission that this is the situation with respect to the rates for grain and other primary products in Western Canada.

- Item 9. On a more technical matter, it is our submission that the class rate structure as it now applies in Canada should be carefully studied together with certain recent changes directed by the Interstate Commerce Commission of the United States, with a view to determining whether or not it would be advisable to establish an additional number of classes in Canada at rates lower than the present 10th Class rate so that a greater percentage of the traffic will move at class rates and will consequently be under more adequate control by the Board of Transport Commissioners.

Here again I do not intend to go into detail, but a few words of elaboration are probably in order. In this connection our fundamental submission is set out in Item 3, namely that freight rates charged for the same traffic over the same distance should be equal except where there is good reason for deviating from that principle. As to the validity or acceptability of the various reasons for deviating from that principle we will submit detailed evidence at a later hearing. There are two points, however, which I would like to emphasize now.

- (1) It is in our view, fundamentally unsound that rates in the Prairie area should be allowed to continue at a level higher than in other parts of Canada at the same time that operating costs and capital investment in the Prairie area are substantially lower than in other areas.
- (2) We think it is fundamentally unsound that rates should be reduced to meet competition or for any other reason and should then be allowed to continue indefinitely at that lower level long after the circumstances which originally led to the reduction have disappeared.

It is for that reason that in Item 8 of our Brief of Points we ask for a review of all rates which are substantially below the average level of rates for comparable commodities.

It is our belief that a substantial number of competitive rates, agreed charges and other special rates, have been allowed to continue in effect notwithstanding the fact that in some cases they

were initiated without due regard to all the circumstances and the fact that in other cases the original circumstances such as competition, operating costs or the needs of national development may now be materially altered. We feel that such rates are particularly numerous in Ontario and Quebec and that they are one of the important reasons why rates in Eastern Canada are on the average lower than rates in Western Canada. For that reason we are especially asking that all such rates should be reviewed.

Let me point out at once that we are not advocating that all rates which are alleged to be low should be raised. In fact in the final sentences of Item 4 we state our opinion that a substantial number of these rates which are alleged to be low are in fact not low when compared to the cost of handling the traffic involved and when considered in relation to the welfare of Canada. I would therefore like to make it clear that in Item 4 our request is that those rates which are alleged to be low should be looked at by a body which is charged with the protection of the welfare of Canada generally and that before that body interested parties should have a fair opportunity to discuss the particular rates concerned and to call to any person's attention those matters with regard to them. We strongly object to the practice which has been followed by the railways in their arbitrary handling of rates such as those on farm machinery, seed grain and grain feed in which rates were raised without public hearing and without opportunity for those who would be called upon to pay the higher rates to state their pointed view to a public body.

In this same connection I would like to mention the effect which the rate structure of the railways has had on the formation of the industrial pattern of Canada. We are all familiar with the concentration of industry in the Eastern Provinces, the comparative lack of industrial development in the Prairie Provinces and the Outback and the grave measures resulting from its predominant dependence on the main-line railway structure. It is our strong conviction that certain features of the freight rate structure have acted in a small way to slow down the development of a potentially large field of industrial activity in the prairies. In particular the so-called trans-continental rates have in our view given Eastern Canada and the Vancouver area an unjustified advantage which is not equitable to manufacturers and distributors in Winnipeg. The effect of those trans-continental rates between Eastern Canada and Vancouver is to establish rates for the long haul in either direction at levels which are not materially different from the rates for the shorter haul between Winnipeg and Vancouver or between Winnipeg and Toronto. In fact in a few cases the rates between Toronto and Vancouver are actually lower than the rates between Toronto and Winnipeg. Whatever may have been the original justification for those rates in terms of competition with water transport through the Panama Canal or with American railways it is our view that conditions have now changed to such an extent that the trans-continental rates should be substantially increased or not eliminated entirely. We would not, however, propose that this should be done without a full review of

the whole situation and without an opportunity for those interested to express their views to a public body acting under the authority and in the interests of Canada as a whole.

In this connection I might mention that we have noted that at least two of the briefs filed with your Commission, namely, the brief from the Canadian Manufacturers' Association and the brief from the Industrial Traffic League, refer at some length to the grain rates in Western Canada, which are commonly known as the Crow's Nest Rates. I do not intend at this time to attempt an exhaustive review of that situation, but it is Manitoba's contention that -

- (1) Rates now being charged in Western Canada including the grain rates, return a satisfactory revenue to the railways over and above operating costs in the area.
- (2) The original cost of constructing railways in the Prairie area and the present cost of maintaining and operating those railways are much lower than corresponding costs in other parts of Canada.

It is therefore Manitoba's conviction that the present grain rates although alleged by many to be "low rates" are, in fact, not "low" when compared with the costs to the railways for carrying the traffic involved, and that they provide a good return to the railways for the service which the railways perform. I would go further and assert that even if this were not so, it would nevertheless be true that the interests of Canada as a whole require that on our greatest export commodity, every effort should be made to see that the producer is not under the handicap of paying excessive transportation costs which would make it more difficult for him to compete in the markets of the world.

(D) Hudson Bay Railway

One final matter is mentioned in our Brief of Points, namely Item 14 which refers to the Hudson Bay Railway. In this regard our concern is with the provision of transportation facilities in the newer areas in the northern part of Manitoba where present transportation facilities are underdeveloped and with the use of this railway for the movement of Canadian products to market and for the bringing in of supplies.

- "Item 14. With respect to the Hudson Bay Railway it is our submission that in the interests of Western Canada in general and Manitoba in particular, the maximum effort should be made to utilize that railroad to the greatest possible extent, as a means of moving farm products to the markets of the world, as a means of bringing supplies from Europe and elsewhere, and as a means of improving transportation facilities for the rapidly expanding mineral industries in Northern Manitoba."

CONCLUSION

Conclusion

In view of the nature of this subject it does not seem feasible that I should attempt to summarize the points which are already presented in a very concentrated form in the Brief of Points itself. As I have already indicated, the position of the Manitoba Government on these and other issues will be outlined in detail in our more complete submission later, and consequently, I merely wish to conclude by thanking you for your close attention and by expressing the hope that I have dealt with this subject in a manner which will be helpful to your Commission in its deliberations.

Respectfully submitted,

Douglas Campbell.



PROVINCE OF MANITOBA

Submissions at Ottawa Hearing

TO

**THE ROYAL COMMISSION
ON TRANSPORTATION**

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WINNIPEG, MANITOBA

- - -

NOVEMBER, 1949



PROVINCE OF MANITOBA

OFFICE OF THE PREMIER
WINNIPEG

September 12, 1949.

Gentlemen:

The views and recommendations of the Manitoba Government on certain aspects of the matters referred to your Commission under Order-in-Council P.C. 6033 are submitted herewith.

This submission has not dealt with all the matters that your Commission will be taking into consideration during the course of the inquiry, but has been limited to an expression of this Government's views on those situations regarding which we wish to suggest certain changes at this time. If, at a later time, other matters are under discussion before your Commission, we assume that an opportunity will be available for an expression of the views of this Government on those matters.

Mr. R. E. Moffat, Economic Adviser to the Government, will appear at your hearings in Ottawa to present this submission and will be available to your Commission to assist you while it is being considered.

Yours very truly,

Douglas Campbell.

Royal Commission on Transportation,
Ottawa, Ontario.



CHAPTER I

INTRODUCTION

Mr Chairman and Commissioners

This submission is presented on behalf of the Government of the Province of Manitoba for the purpose of laying before you the views of the Government of Manitoba as to the type of recommendations your Commission should make on the various matters with which you are concerned. You will recall that in the course of his remarks on the first day of your regional hearings in Winnipeg, Premier Campbell said:

"On April 29th I forwarded to you a document which we called a Brief of Points. That document outlined very briefly our views on certain of the major matters with which you will be concerned. At that time we made it clear that we would make more detailed submissions at a later date. In my remarks today I propose to deal with four major issues and to indicate in some detail our views on them. The remainder of the points and any other matters which may arise as a result of the hearings which you will be holding in various areas and as a result of the studies which you and we will be undertaking will be dealt with in a more detailed brief to be submitted at Ottawa later."

The submission which is being made today is the more detailed brief to which Premier Campbell referred at that time. It deals with the matters upon which Premier Campbell advanced suggestions as to the recommendations which your Commission should make, and in addition it deals with a number of other matters which were not referred to in his remarks. We would like to suggest that your Commission consider this submission and the brief presented by Premier Campbell, to be an integral part of Manitoba's overall presentation. The material contained in either of them should be interpreted in the light of both and the explanation of many of the statements of attitude made in this submission will be found in the economic and historical situation which was pointed out in the June 1st brief.

A brief outline of the mechanics which have been followed in preparing this submission may help to indicate the pattern which it follows. The body of this submission attempts to give a coherent and relatively simplified exposition of the position which Manitoba takes on the various matters. In some cases however it has been necessary to provide details as to the method of calculation and documentation as to the sources of statements made. In order to avoid serious interference with the continuity of thought much of this detailed calculation and documentation is omitted from the body of the submission and is included in footnotes and appendices. In a few cases it seemed advisable to incorporate it directly into the body of the submission.

Before proceeding with the detailed submissions contained in the body of this brief the Manitoba Government would like to take this opportunity to express its feelings of satisfaction at the appointment of this Royal Commission. These feelings stem partly from the fact that the appointment of your Commission was a direct result of requests made by this Government along with the Governments of other provinces which have been actively engaged in the freight rate discussions of the last 2 years. The Provincial Governments cannot but feel that your appointment indicates that the Dominion Government recognized and concurred in the validity and strength of many of the reasons which led us to make that request.

A more important cause of satisfaction at the appointment of your Commission at this time is that it provides an opportunity for the amelioration and correction of pressing national problems and regional grievances an opportunity which may not arise again for many years to come. It is not unfair to say that prior to October 1946 there were relatively few persons in this country who were familiar with the complex economic problems arising out of the operation of the Canadian railway system. As a result of the various hearings which resulted from the filing of the application for a 20% increase in freight rates and the later related hearing there arose a relatively large group who have acquired some knowledge of the detailed implications and ramifications of these problems. Thus the various Provincial Governments and certain other groups such as Chambers of Commerce, farm co-operative organizations, etc. are now in a position to express considered views as to the strength and weakness of the present railway freight rate structure and the Board which regulates it. By appointing this Royal Commission the Dominion Government has provided a forum in which the views of any interested group may be expressed and tested against the views expressed and the questions raised by others. After hearing this exchange of views and after considering studies which are made by your own staff your Commission will have a unique opportunity to frame recommendations which will materially improve the situation in the future. If your Commission had not been appointed this unique opportunity would have been lost and a long interval of years might have intervened before it would have been possible to again assemble the amount of expert knowledge and experience which has been built up in the last 2 years. For this reason we welcome not only the appointment of your Commission but we particularly welcome its appointment at this time.

Transportation Other Than by Railway

It will become apparent that this submission deals mostly with the problems arising from railroad freight rates and that it gives relatively little attention to the problems arising from other forms of transportation except insofar as they have a direct bearing upon the railroad freight rate structure. This characteristic of the Manitoba Government's submission is a reflection of two things. Firstly

since Manitoba is situated in a part of the country where water competition is non-existent and in which track competition is effective only to a limited extent, the railways are in a strong quasi-monopolistic position as sellers of transportation services. Secondly, since the Manitoba Government has taken an active part in the recent freight rate cases before the Board of Transport Commissioners, this Government has the staff and experience to deal with the details of the major problems of the railroad freight rate structure whereas it could only express general attitudes and suggestions on other aspects of transportation matters.

Although both of these facts have caused the Manitoba Government to focus its attention on freight rate problems, the relatively small space which is devoted to other transportation matters should not be taken to mean that this Government considers these other matters to be unimportant to the economy of Canada. They are undoubtedly of tremendous significance but the very newness of these problems and their different economic and geographic setting prevent the Manitoba Government from assessing their significance as closely. This Government's suggestions, then, are conditioned by its experience of the immediate past and by its prairie environment.

Concern Regarding Level of Freight Rates Throughout Canada

Since that economic and geographic environment was discussed at length in Premier Campbell's submission to your Commission in Winnipeg it is unnecessary to devote a great deal of time to this subject here. Briefly it can be said that the marketing mechanism is such that the people of Manitoba must pay the freight on the outward shipment of their products to market and on the inward shipment of those producers' and consumers' goods which come in large quantities from British Columbia, Eastern Canada, Europe, or Eastern United States. The central location of Manitoba in the continent means that these charges will be high. All of this has been said before, and there is no need for further elaborate discussion of it.

The implications of this situation, however, deserve some emphasis. Since Manitobans and those who live in the other Prairie Provinces are forced by their central location and the marketing mechanism to pay heavy freight charges on both incoming and outgoing shipments which pass through two or more regions, their primary interest must inevitably be, not the level of freight rates in this Prairie region alone, but the general level of freight rates throughout Canada.

A few examples will serve to illustrate the point under discussion. Wheat shipped from a Manitoba point to the Head of the Lakes by rail, from there to the Bay Ports by lake steamer and from there to Montreal by rail, is moving on Eastern freight rates during a large fraction of its movement to market. But since the rates charged for shipments over lines in Eastern Canada will affect the

Fort William price for wheat, the level of these Eastern freight rates, both rail and water, is of great concern to the Manitoba farmer who receives that Fort William price less freight to Fort William. The level of these rates on wheat, however, is of no concern to Eastern Canadian consumers or producers. It may be that under the temporary situation during the existence of a contract price for wheat the above analysis will not be precisely true but in the longer run and under ordinary marketing conditions there is no question that the return to the western farmer for his wheat is the price at the world market less the cost of transporting his wheat to the world market. That transportation cost which is deducted requires the charge from his farm to the Lakehead, from the Lakehead to the Bay of St. Lawrence from the Bay of St. Lawrence and from Saginaw to the ultimate destination. Any increase in any of these rates will be directly reflected in a reduced return to the grower.

Similarly, when farm implements are shipped from factories in the Toronto-Hamilton-Brantford area to Manitoba, they move at Eastern freight rates until they reach Fort William and the level of these rates is of direct interest to the Manitoba farmer who pays f.o.b. price plus freight on the shipment. Here again the freight charges are of no direct concern to the Eastern implement manufacturers and was interest has only as much as they affect his competitive position in the Western market area. The freight rates on lumber, a British Columbia area of similar interest to Manitobans who buy lumber from mills on the Pacific coast.

Thus if freight rates are high in any part of Canada, the Prairie feel the burden, whereas certain other areas which are either more self-contained or which are faced with a different marketing mechanism, are only affected by freight rates in the same region. It is because of this fact that Manitoba is interested primarily in the general level of freight rates throughout the country. But while it is the general level of freight rates with which the Manitoba Government is primarily concerned, it is not to be supposed that the Government believes that this issue concerns interests will be safeguarded by giving its attention exclusively to the general level of freight rates and neglecting the component parts of the freight rate structure. While we have no direct interest in the level of freight rates which apply on movements of goods entirely within other regions, yet these levels may have an indirect but very important bearing upon the welfare of Manitoba.

For example, the freight rate on steel being moved from an Eastern mill to an Eastern farm implement factory, while it is of no direct concern to the people of Manitoba, may affect them in either or both of two ways. First, the freight rate on steel bought by the implement manufacturer since it is an element in his costs, will be reflected in the f.o.b. price of the implement which is charged to the Manitoba farmer. Secondly, if the freight rate on this steel is a rate which is held down by the competition of lake boats to a level at which the railways are not covering the total cost of shipment, the railways may attempt to make up the deficiency in their revenue

by charging higher rates in less competitive areas such as the Prairies. If there are a great number of these unremunerative competitive rates on commodity movements wholly within the East, then the necessity of making up revenue in the Prairies through charging higher freight rates on goods moving entirely within the Prairie region, will place considerable burden on the Prairie economy.

While it may be argued that some of these low rates may result in a benefit to Manitoba, which benefit offsets to some extent, the burden described above, the Manitoba Government believes that such benefits to Manitoba do not nearly equal the burdens upon Manitoba emerging from these low rates. The greater part of the benefit is enjoyed by people in other areas while the revenue losses are compensated by higher rates in the West. Hence the Manitoba Government finds that while its primary interest is in the general level of freight rates, it also has a very strong secondary interest in a rate structure more uniform as between regions, particularly in the securing of a uniform class rate structure and the eliminating of all uneconomically low competitive rates. It is the national freight rate structure operating within a framework of national policy, and not merely the rate structure of this Province alone, in which the Manitoba Government is vitally interested.

Railways as Instruments of National Policy

It is an historic fact that railways have always been regarded by the Dominion Government as instruments of national policy. To view them in any other way would be folly, because of the size of these railway systems, the strong quasi-monopolistic position which they occupy in many parts of the country, and the almost complete dependence of certain areas, notably the Prairies, upon the railways for the provision of transportation services for their major products. This means that in Canada, railways cannot be regarded merely as business enterprises which are entitled to maximize their profits by applying strictly business principles without regard to regional needs, or national policy.

It is true that Canadian railways have been instrumental in opening up new country and, in conjunction with tariffs, in welding the component parts of Canada into an economic and political unit. These facts alone make it clear that the railways are not merely private corporations but their role as developmental agencies being so vital, their use in relation to the populated area being so great, and their potential influence upon national development being so enormous, the people of Canada have always insisted that limits should be placed upon their freedom to levy rates according to the principles which would guide ordinary profit-making corporations and upon their freedom to build according to unauthorized plans. Despite the passing of the stage of pioneer development, despite the growth of other forms of transport, and despite the growth of the national income, Parliament has recognized that railway services

and the rates charged for them are too vital and too important to be left in the hands of any one interested party, whether that party be the management of the railways, the employees of the railways, or the consumers of railway services. The Railway Committee of the Privy Council, the Board of Railway Commissioners of 1903, and more recently, the Board of Transport Commissioners, have been agencies established for the exercise of that control which is required in these great questions of transportation policy. Since the role of transportation is still crucial, the Canadian people must, as a matter of national interest, make sure that the Canadian railway systems are maintained on a sound basis. The Government of Manitoba therefore takes the view that the Canadian railway system and the companies which operate it, must be regarded as national instruments which must be used in an equitable manner, having regard to the aims of national policy, the needs of regional development, and the maintenance of a satisfactory standard of service.

We should immediately make it clear, however, that we do not question the wisdom of continuing the basic structure of Canada's present railway system in which the C.N.R., a government-owned enterprise, competes with the C.P.R., operated as a privately-owned railway. Although, in the remainder of this submission we make a number of proposals which would have the effect of laying down a more detailed framework of law and regulations within which the railways would be free to exercise their own judgment, nevertheless, we are strongly of the view that the C.P.R. should continue to operate as a privately owned system within that framework. We feel that administrative efficiency, operating efficiency, and service to the public, will all be maintained at a better standard if Canada continues to have two competing major railways, one privately owned and one owned by the Dominion Government.

CHAPTER II

Regulation of Railways in Canada

From their very beginnings railways in Canada have been subject to public control, and as such they have shown many of the features of those types of enterprise which are known as public utilities.

There is nothing new in the public utility concept. It is an accepted feature of our society in situations where the general reliance on the pricing mechanism of a fairly free market to protect consumer interests has been found inadequate in a particular important field. The foundation of the concept of regulation of public utilities lies in a public recognition that the function of meeting certain of the community's economic needs will not be fulfilled adequately unless certain restraining influences are introduced. Through most of the fields of economic activity in our society the pricing mechanism of the market operating within a loose framework of law and custom, provides this restraining influence and ensures in a more or less satisfactory way that the quantities and qualities of goods and services required by the public are made available. But it has long been recognized that public supervision in one form or another is required in those activities where the impersonal mechanism of the market has led to results which society finds unsatisfactory. The origins and development of public utility regulation can be explained largely in these terms.

There have always been strong disagreements on the question of how large an area of the economy should be subjected to regulation in this way, although there is general agreement that where a field of activity displays certain characteristics, it is affected with a public interest and if the public needs are to be adequately met some form of public supervision will be necessary. In Canada, in the United States, in Great Britain and in fact throughout most of the world rail transportation has long been included in the group of industries which are treated as public utilities. The features which make the railway industry a fit subject for public scrutiny and supervision and place it in the category of a public utility are two in number.

It is an industry on whose efficient and uninterrupted operation the rest of the economy is heavily dependent. A breakdown in rail transport is a highly specialized economy which has no other method of moving most of its goods leads directly to widespread stoppages elsewhere and if that situation persists for any length of time, accumulated inventories disappear, storage facilities become clogged and the overall effect is nothing short of catastrophic. The effects of the railway employees' strike in the U.S.A. in May, 1946, have

not yet been forgotten. Less dramatic but of even greater importance in the long run, is the fact that in many areas the standard of rail service and the rates charged for that service almost completely determine the standard of living and the industrial development which can occur there.

It is an industry in which there are important limitations upon the ability of competing firms to establish themselves. A field of industry which is important in the above-mentioned sense might still be outside the legitimate field of public regulation however if the field is one which attracts numerous participants with entry and exit being not unduly difficult. Under such conditions the public finds itself in the fortunate position of being able to choose between several suppliers of the service and the resulting competition serves as a check on the action of each of the participants. In other words, the competitive operation of market forces becomes a regulator on which the public relies for its protection against any attempt by the producers or sellers of the service to take advantage of their strategic bargaining position. This situation does not, however, prevail in the railway industry.

For reasons such as a need for a very heavy initial investment in highly specialized capital goods and the economies which are brought about by operations on a large scale the railway industry has always been dominated by a few large firms and in many localities the shippers have been forced to depend upon the one railway which serves the locality. Even where a locality is served by more than one railway there is a strong monopolistic element in the movement of any particular shipment unless the point to which the shipment is going is also served by two railways. In the absence of some regulatory device the public would be left largely at the mercy of railway management.

For these two reasons, namely a heavy dependence of the economy as a whole on the operation of railway service and the absence of the impersonal checks of a fairly competitive market, railway operation from its earliest beginnings was placed in a special category subject to restrictions and directions laid down by public authorities. The responsibility of the regulatory body has been to ensure that the public as a whole, as well as particular sections of it, is protected from undue high rates and inadequate service, and at the same time to safeguard the legitimate rights of the enterprise which is being regulated. It should be pointed out at once that in performing these functions the public authority is taking over the functions which in other industries are performed by market forces. If by order or regulations of a regulatory body the public is to be protected from undue high rates then that body has taken on the function of deciding what is a fair rate — it is in fact making the decisions which would otherwise be arrived at by the market. Further just as the market produces different prices under different circumstances, so a regulatory body which is aware of its true function will produce different results in changing conditions.

An integral part of the question of fair price is that of the quality of the goods or service for which that price is being paid. Under ordinary competitive conditions a buyer is free to accept or to reject goods or services of a particular quality being offered to him at a particular price. It is the buyer, therefore, whose decisions will in the long run determine the quality of the goods or services which find a market. By the same token it follows that in a regulated field of enterprise the public should not be forced to accept the particular quality of service decided upon by the seller. It is therefore, the view of the Manitoba Government that the Board of Transport Commissioners should be charged with the responsibility of deciding both the quality of railway service to be provided and the rates which are to be paid for that service.

Early Attitudes Toward Railway Regulation

We would now like to direct attention briefly to the changing attitudes toward railway regulation in Canada and to point out the relationship between the attitude in each period and the changing importance which the public attaches to the two factors mentioned above namely the indispensable need for railway service and the need for some protection against possible abuses of the railway's monopoly position.

In its inception, the C.P.R. was an enterprise made possible by the combination of private risk capital and a large measure of public support which took the form of outright contributions of money, of lands, of completed sections of railway lines and sympathetic national policy. Insofar as most of the territory to be crossed by the railway was unpopulated and unproductive, the modern problems of freight rate relationships, location of line, adequacy of service, etc. did not present themselves. The interest of the Government and of the Canadian public was concentrated on having a line built in order that an economic integration to match the political union initiated in 1867 would be provided. Almost all other considerations were subordinated to that of securing an East-West integration of the Canadian economy. One of the first requirements was a railway line to serve the country and Canadian tariff policy and immigration policy were directed to the same end. No one will deny the important part which the railway took in promoting the development of the region it served. Railway development and national economic development marched together. In these circumstances, the identity of interest between the railway and the public was such that decisions concerning railway construction and finance concerning railway freight rates, etc. could be left almost entirely to the management of the company, with reasonable assurance that so long as development and extension of lines pressed forward the Canadian public would not be too concerned about rates charged or about inequalities between various areas or between shippers of various commodities. In fact the only overall control of freight rate levels in this period was the provision that if the C.P.R. paid dividends in

excess of 10% its rates would be subject to supervision by the Railway Committee of the Canadian Privy Council.

As soon as the railway lines were built, however, the people of the area began to be less concerned about the mere provision of railway service and directed their attention to an attempt to have railway policies conform more fully to the needs of the region served. Interest therefore shifted to such matters as the general level of freight rates and the rates charged for important commodity movements. These differences became manifest at a fairly early stage in the history of Western Canada. One need only recall the vigour with which the Province attacked the monopoly privileges extended to the C.P.R. and the measures which were taken to force freight rate reductions on that line. The point is that once the basic interests of providing a transcontinental rail system and of taking steps to assure its financial success had been satisfied other interests appeared. Questions of agricultural and industrial development could not be separated from the freight rate structure and the competing desires of different sections of the country to progress behind a sound agriculturally gave rise to the need for adjustment of the rate structure. Jealousies with respect to the location of branch lines manifested themselves in claims for new and improved transportation facilities. With the disappearance of some of the taxes attendant upon the initial construction of the railway a scaling down of the financial returns of the company were sought. A realignment of interests had taken place and a new balance had to be found.

Railway Regulation Under the Board of Transport Commissioners

The rapid rate of development following the completion of the main line of the C.P.R. brought these problems to the forefront quickly. Accordingly the question of devising a suitable method of effecting a balance between the various conflicting interests which had emerged by the turn of the century had to be faced. The reports of Professor N. J. McLean on Railway Commissions, Railway Rate Grievances and Regulatory Legislation led directly to legislation providing for the constitution of the Board of Railway Commissioners to administer a railway regulation policy as laid down in the Railway Act. The essential nature of the Board and that Act was that they were designed to prevent abuses and to remedy discrimination where complaints were lodged. In other words the emphasis had shifted substantially from that of mere provision of railway service to that of preventing unfair treatment of the users of the service. The regulation was negative in this sense that it was merely designed to prevent certain undesirable actions which might be taken. For example rates could not be higher than the maximum set in the class rate structure. But within those limitations the railways were still free to exercise full authority. For example they could meet or ignore competition without regard to whether the competitive rates had adverse effects upon one or more regions. The system reflected an attempt to prevent the most serious abuses of the railway's

monopoly position while retaining as much as possible, the freedom of action which they had enjoyed in the earlier period. It was a system which proved reasonably satisfactory so long as the old concept of an expanding nation remained and so long as there remained a public attitude which placed such extreme importance upon the provision of railway services that it was prepared to overlook any but the more serious defects of railway policies.

This attitude remained dominant during a period which was characterized by a general upward trend in terms of economic growth, marred though it was by war and short lived recessions. The railway systems remained in the forefront and made this growth possible. While it is true that the complexity of rate regulation increased during these years due partly to violent fluctuations in the level of prices, partly to the aspirations of various sections of the national community for a place in the sun, and for other reasons as well it must also be borne in mind that the larger identity of interest and the interdependence between a growing national community and an expanding railway system remained. The necessity to recognize the legitimate needs of an expanding enterprise, though quasi public in nature, also remained.

Recent Changes in the Attitude Toward Railway Regulation

It is our submission that the Canadian experience during the great depression of the 1930's and during and since the second great war has produced such a change in public attitudes on these questions that there is need for a complete reassessment of the Railway Act and its administration to bring them into line with present conditions. The task of arriving at a suitable balance between the various interested parties should now be approached in a manner which is adapted to a different set of conditions.

The railway systems of Canada today remain an absolutely indispensable feature of the national economy. Their continuous and efficient operation is vital to the welfare of all of us. To deny them the means which make possible their operations would be harmful to all of us. But at the same time a definite change in the functions of the railway system has taken place. The railways are no longer spearheading the national development. They have become firmly embedded in an economy which shows signs of greater stability and a slower and more orderly growth in the future. The prime function of the railway networks is to serve an existing community effectively rather than to build a new one. This is not to say that we feel that no changes lie ahead. We believe that the future will bring changes and improvements and that the railways will be closely connected with them, but the direction and nature of these changes will not be so closely connected with railway building. Furthermore the provision of new railway facilities will be a relatively small part of the Canadian transportation problem, while the manner in which existing railway lines are used will be a paramount issue. In these changed circumstances the interest of the public in

railway operations changes, with less emphasis being placed on the promotion of increased trackage and other rail facilities and a greater emphasis on using the existing railway facilities to meet the ever-changing needs of the community. The effect is to require a shift in the nature of regulation.

On the one hand public regulation should shift its emphasis away from mere restriction and control to prevent abuse of the semi-monopolistic position of the railways and toward the acceptance of responsibility for initiating policies required to adjust the railway system to the changing needs of the community and its parts. On the other hand there must continue to be a clear recognition that if this is done together with the responsibility to make sure that the railways have available to them the funds and the facilities necessary to provide the type of service which the country requires.

One aspect of this change requires particular notice. It has to do with the need to protect certain areas against being asked to pay more than their fair share of the total railway costs of the country. This is no simple task under modern conditions and cannot be touched off with the suggestion that a formula such as "charging what the traffic will bear" will provide a ready answer to the issue. Not only the question of arriving at an equitable distribution of the national transportation bill, but treated in terms of discriminatory freight rate areas which are not subject according to the criteria which have been applied in the past. Some more positive direction from the regulatory body has become necessary. The statistics of a mature railway system are such that they could not be expected to take the initiative in introducing a change of this type which, although desirable as a matter of public policy, will not necessarily appear to the self-interest of the railways.

Under the existing system of regulation such changes will not be made because the Regulatory Board considers its function to be that of preventing undesirable actions proposed to it. It does not undertake the initiative in correcting existing conditions.

The logical message which may be extracted from the above remarks is that the recognition of interests in the operation of our rail networks is such that the task of balancing these requires more than regulation of the restrictive nature which was customary in the past. The function of the regulatory body must extend to the prevention of abuses of particular types, but must go further in that a larger measure of positive direction is required. That this should be true must be obvious to anyone who is aware of the differences of opinion and conflict between the railway companies and the public at large, but also between various sections of the public. Expression of this has been noticeable in the freight rate controversies of the past two and a half years.

While suggesting that regulation of a more positive nature is required for the future we are not unmindful of the fact that the railway companies right to an "adequate" scale of remuneration should not be lightly discounted. To do so would do serious harm to

the welfare of Canada generally. It is the view of the Manitoba Government that the nature of the transportation service should be determined to a larger extent than in the past, by a body representative of the public and the distribution of the cost necessary to the performance of this function should likewise be determined to a larger extent by someone other than the railway management. It follows that the public at large, is under obligation to provide the railways with the financial means to provide that service and that one of the main problems to be faced by the regulatory body will be that of determining how much money the railways need for that purpose.

The discussion above is intended to suggest what we consider to be the attitude of the Canadian public as to the functions which the Board of Transport Commissioners should perform under present conditions. The record leaves little doubt but that these functions have not been adequately fulfilled in the past. To some extent this is a criticism of the Board itself, but in a more fundamental way it is a statement of the fact that the powers and responsibilities of the Board as set out in the present Act, are inadequate. We now propose to make certain suggestions for changes in the Railway Act and its administration in the light of these changed attitudes.

The Board Should be Considered a Policy-Making Body

The Manitoba Government is of the view that there is need for a wider appreciation of the fact that the Board is, in a very real sense, a policy making body as well as a judicial and administrative organization. Certainly there can be no disagreement with the fact that the final responsibility for public policy decisions in this field must rest with the highest policy making body, namely the Dominion Government. As was pointed out in the brief presented by Premier Campbell, railway transportation is so vital and has such monopolistic characteristics that our people are firmly of that view. But we are also of the view that it would be completely unrealistic to suggest that the Dominion Government should directly deal with the day by day administration of that policy, or that it should attempt to lay down broad principles of policy without the benefit of detailed study by persons who are in close touch with the matters concerned.

In a sense, the establishment of the Board of Transport Commissioners involved a delegation of policy making functions from the Dominion Government to that Board. The general approach which the Board is to take in deciding the highly technical matters which come before it, is laid down in the statute, but within those broad limits the Board acts in a legislative as well as in a judicial capacity. There is probably much to be gained in turning over to a specialized group, the policy making functions on specialized questions. The gain in terms of efficiency and time saved is probably enormous. At the same time no one can accept the proposition that policy decisions in such an important field as this, should be final

if made by a body other than the Dominion Government. The ultimate responsibility for public policies must rest with the Government.

It is in our view most essential that this policy making function of the Board should be clearly recognized and that the relationship between the Board and the Dominion Government and the Railway Act should be clear. There are certain matters which are of great national importance and where the power is to be followed as to be said down quite specifically. It is our view that Parliament should deal with these issues directly in the Railway Act itself. On the other hand the body which is to administer the Act must of necessity have to depend upon the consideration of facts which go far beyond the limits of railway operations as such. It is therefore essential that the Act make it clear that the Board has the power and responsibility to consider such matters. In many matters of this type the Railway Act can merely lay down the general control policy but must leave a substantial measure of discretion to the administrative body to decide which action should be taken at any particular time.

The responsibility of the Dominion Government as distinct from the Parliament should also be clear. The danger is that once a Board of this type has been set up the ultimate responsibility of the Dominion Government for its policies might not be appreciated. What we have aimed at is that if a particular issue arises among public concerns it might be suggested that that matter is exclusively a problem for the Board to decide and that consequently the Government should do nothing about it. For this reason we feel that your Government should recommend that in any revised Railway Act there should be a clause which gives to the Dominion Government the responsibility and the authority to disallow or to vary any order of the Board. Furthermore in cases where the Railway Act has laid down only the general lines of policy the result will normally be that in many situations there will be several alternative policies which might be adopted, all of them perfectly consistent with the general policy laid down in the Act. In situations such as these we feel that it should be made clear that the Dominion Government has the authority to designate which of these alternative policies is to be applied. We feel that the Dominion Government should have the power and the responsibility to take such actions either on its own motion or upon application.

It is true that a properly constituted Board which is aware of its functions and responsibilities will generally arrive at decisions which are quite consistent with the public interests. Under such circumstances any significant number of interventions by the Dominion Government would be unfortunate in that they would destroy the usefulness of the Board as a maker of policy. A competent Board should be left free to use its own judgment within the limits of the Railway Act. At the same time it is certainly conceivable that a misjudgment of where the public interest lies or perhaps an inadequate appreciation of the complex situation upon which it is called to rule may lead some future Board into serious mistakes. It is to ensure against such an unlikely but entirely possible eventuality,

that we urge that an avenue be left open for a review of the situation by the highest policy-making body in the country. In support of this position we remind your Commission of the many questionable aspects of the 21% Judgment of the Board of Transport Commissioners in March 1948 and of the unfortunate situation which would have existed if that decision had been allowed to remain final with incalculable results on freight rate levels in Canada for all time to come.

A system under which an administrative body acts under policy directions from the Government within the general framework of policy laid down by Parliament in a statute is by no means new in Canada. The whole of our business organization has developed and operates under administrative procedures and regulations laid down in accordance with policies set out in provincial and federal statutes, dealing with taxation, with corporate structures, with minimum wages and with many other matters. In fact, the C.P.R. itself has from the beginning been subject to close regulation in many matters and to general supervision of its main policies and accepts the necessity for public regulation. At the same time, we wish to make it clear that there would be grounds for serious objections, if a body such as the Board of Transport Commissioners were to be subject to interference from the Government on its day to day operations.

The Board Should Act More Frequently on its Own Initiative

The Manitoba Government is of the view that the Board should not simply wait for applications and complaints to be raised before it and render a judgment on them. Rather the Board and its staff should constantly be in close contact with the changing railway picture and should take the initiative in directing the course of those changes when conditions warrant such steps. It has become too clear in the rate controversies of the last few years that the various groups interested in transportation matters are not equally aware of the implications of their own peculiar position and are not organized with equal effectiveness to raise their problems before the Board. If the Board continues to act on even the request of some outside party it is entirely possible that many legitimate complaints may never reach it, if for no other reason than that the party concerned is unaware that its position is being prejudiced. Under such circumstances it seems proper that the Board should act without waiting to be called upon, that it should advise all of the interested groups that the problem is now under its consideration, and should request them to state their case before it. A decision could then be reached on the basis of these representations and on the basis of additional information supplied by the Board's own staff. Accordingly Board decisions would come to depend in lesser extent upon the ability with which any one group is able to present its own point of view. Instead the decisions emanating from the Board would reflect in greater measure, public policy as laid down in the Railway Act. It would be the Board's

function to actively administer this policy rather than to wait for someone to complain of alleged inconsistencies between that policy and actual developments in the transportation field.

There may be objections to this recommendation on the grounds that it would involve some transfer of function from railway management to the Board of Transport Commissioners. In asking that the Board take the initiative when circumstances warrant it there may be a suggestion of some restriction of the managerial functions. That is not the purpose of this recommendation however. There is no intention that managerial decisions should be held up until they have first been ratified by the administrative tribunal. Rather, management would be expected to carry on the day to day operations of the railways as before, but the Board would be required to see that the cumulative effects of these day to day decisions do not run counter to considerations of public policy. The Board should therefore serve as an independent check upon railway developments, without waiting for the railways or anyone else to draw to its attention matters which seem prejudicial to some group or region.

The Board Should be Freed from the Restrictions of its Previous Decisions

The Manitoba Government is of the view that the Board should decide questions which come before it, on their individual merits, quite apart from the fact that similar questions have been decided in a particular way in the past. Decisions which may have been quite proper and sound in the circumstances which prevailed two and three decades ago, will not necessarily be the best decisions to make today. While this may appear self-evident, it is a fact that some recent judgments of the Board seem to place undue emphasis upon solutions which are now, in our view, completely outdated. This is not intended to suggest that precedent should have no place at all in the jurisprudence which will be built up by the Board in the future. The idea of *stare decisis* is definitely of value in that it enables the parties to a dispute to form some estimate of the decisions which will probably be reached. Furthermore, any Board which attempts to ignore any set of principles would of course give a similar decision on a similar set of facts. The point we wish to emphasize however is that insofar as there has been a definite realignment of interests in railway matters in this country in the last few decades, it seems desirable to effect a fair and complete divorce from the decisions of the past and to make a fresh start. It may well be that the revision of particular sections of the Railway Act which will be recommended in other sections of this submission will provide a method of pushing the accumulated jurisprudence of the Board into the background and of forcing it to begin anew.

CHAPTER III

Railway Service—Standards and Cost

In the preceding two chapters we have dealt with the philosophy and attitude which, in our view, should underlie the changes which your Commission will recommend in the legislation and the administration which controls railway operations in Canada. We now turn from these discussions of general matters to a more specific consideration of certain aspects of the policy which, in our view, should be followed in the future. In that discussion we propose to consider three broad questions:

- (a) the standard of railway service which should be made available to Canadians;
- (b) the methods of determining the total expenses necessary to provide that standard of service,
- (c) the methods by which the amount of revenue necessary to cover those expenses is to be secured.

The remainder of this submission deals with various aspects of these three matters. In this present chapter we propose to deal with item (a) and with certain considerations which underlie item (b).

The Standard of Transportation Service

It is self-evident that the people of Canada must pay for the transportation service which is provided to them. It is true that there are various ways of paying for that service, but each of them eventually comes back as a charge upon the people of Canada as a whole or upon certain groups of Canadians.

The view of the Government of Manitoba is that since one of the fundamental facts underlying this whole problem is that the people of Canada must pay for this transportation service, it follows that the people of Canada as a whole have a right and a duty to insist that the standard of service which is provided is satisfactory and that it is provided at the least possible expense to those who must pay for it.

It is for this reason that the first item in the Manitoba Brief of Points is—

"1. The national system of railway transportation in Canada, including all the railway companies, is one of the fundamental bases of the general welfare of Canada, and consequently it is essential that this service should be maintained at a standard which is sufficient to provide adequate transportation for the products of Canada, but it is equally essential that the standard of transportation services should not be one which is beyond the capacity of the people of Canada to pay for."

As we have already pointed out in the chapter entitled "Regulation of Railways in Canada", this public control of the standard of

railway service as a necessary counterpart of the fact that a public body has taken over the functions of determining the level of freight rates in Canada. The people of Canada have given to a Board the duty and responsibility to determine the level of freight rates. That duty cannot be carried out satisfactorily if the Board takes the attitude that the railways can provide whatever standard of service they choose, and that the Board's function is limited to determining the cost of that service and setting a level of freight rates which will meet that cost.

In the past the problem of the standard of railway service has not assumed great significance in the discussions as to the level of freight rates. In general, the Board has accepted the judgment of the railways as to the standard of service which is desirable for the country, and the people of Canada as a whole have been reasonably satisfied with that method of disposing of the matter. It is our view that it should now be made clear that the ultimate responsibility in this regard lies with the legislative body. In practice we feel that in most cases we will still be true to the suggestions making the railways compare with the standard of service which is reasonably acceptable. We said, but we feel that it is essential that the Board make its own investigations and come to independent conclusions as to the advisability of setting higher freight rates in order to provide for a higher standard of service.

In its judgment on the 21st June the Board dealt with the question of the standard of service in its analysis of the 1946 maintenance accounts. It is that analysis there was an attempt to apply sounder criteria to make studies by the Board itself. Rather the reason is to accept railway figures on the ground that railway operating officials are in close touch with the situation and are better able to judge the standard of maintenance which is required. We agree that the railway engineering men are more familiar with the problems of providing a given standard of service and of estimating the cost of that standard. A decision as to whether or not that standard is to be provided however involves matters which go far beyond the railway staff and in those matters the railway officials can claim no particular expert knowledge. For that reason we feel that although the opinions of railway officials should be given serious attention, the Board should not overlook the opinions of those who will be asked when they pay the costs of the service. It is our view that the Board should take all such submissions into account and after consulting independent expert advice should reach its own conclusions as to what is desirable from the viewpoint of the country as a whole.

The relationship between the people of Canada and the railway system is in this regard somewhat similar to the relationship between a large retail merchandise establishment and its delivery system. The problem is to decide the type of delivery service which is to be provided, what number of such services as the frequency of deliveries to the customers, whether those deliveries are to be made in new modern trucks or in older and cheaper vehicles, and what proportion of the total revenue of the establishment is to be set aside to

pay for the delivery service. One method of dealing with these problems would be to allow the manager of the delivery department full authority to settle them himself. So long as the total area served by the establishment continued to expand rapidly and the number of customers and the volume of goods to be delivered continued to expand with it, it might be quite satisfactory to leave these matters in the hands of the transportation manager, for his natural tendency to expand and improve delivery service would be quite in line with the needs of the company. But I would always be clearly understood that his decisions were subject to review by the general manager of the entire organization. Once the full area which was tributary to the plant had been supplied with regular delivery service, there would eventually come a time when the general manager would need to assert his authority over the transportation manager and see that the activities of the delivery department were not inconsistent with the needs of the whole company in the new circumstances. It is our view that Canadian railways have now reached that position. New railways may be needed in some areas and new areas may be opened up in the future, but in the main the problem now is to make the best possible use of existing railway facilities. The rate of expansion and the standard of service to be provided is no longer a problem which can be safely left exclusively in the hands of railway management. It must now be considered as part of the overall national economic policy.

During his cross-examination of Premier Campbell on the brief presented by Premier Campbell at Winnipeg on June 1st, Mr. Evans suggested that Item I of the Brief of Points as quoted above was equivalent to a suggestion that the standards of service to be provided by the railways were to be laid down by statute. In view of the discussion which I showed it seems desirable at this time to elaborate somewhat upon this item.

There is no suggestion that the Parliament of Canada should be asked to pass a statute which would say that the Canadian railways must not spend more than a specified amount on improving the standard of railway service, or that any particular improvement should be made to their rolling stock or track. Rather the suggestion is that in amending the present Railway Act it should be made clear that the Board of Transport Commissioners has both the authority and the responsibility for supervising the general standard of transportation service provided in Canada. This would not be done on any mechanical basis by adding up national income and or other statistical figures. Rather the thought is that from time to time the Board of Transport Commissioners should consider this matter and should reach a decision in the light of the relative prosperity of the country, the relative volume of traffic which is being carried and which is in prospect for the future and other considerations which might be important at the time. The frequency with which such reviews would be made would depend upon circumstances. The railways might feel that an improvement program should be undertaken and might ask for a rate increase to cover its cost. On the

other hand, a move for a change in rate levels initiated either by the railways or by the Government or the Board would automatically raise the whole question of the standard of service. In practice, it seems likely that the standard of service provided by the railways would not be seriously questioned unless it were so high that it led the railways to ask for a rate increase to support it or unless the railways began to show earnings at such a level that the public began to press for either a rate reduction or an improvement in the standard of service.

Estimating the Cost of Transportation Service

At the beginning of this present chapter, we suggested that the discussions in the remainder of this submission would be divided into three broad categories. We have now dealt with the first of those broad categories, namely, the problem of determining the standard of railway service which should be made available to Canadians, and we turn to the second of those problems, that of determining the total expenses necessary to provide that standard of service.

When it is faced with a decision as to the level of freight rates which are to be charged in Canada, the Board will immediately find that it must reach a conclusion as to the amount of money needed to pay for the standard of railway service provided in the year which is under consideration, together with the amount, if any, which is to be provided for the purpose of improving the standard of service if the Board considers that such an improvement is necessary. In its attempts to reach conclusions on these questions the Board will inevitably find that it must make a careful analysis of each of the main categories into which the railway expenditures are classified in the accounts of the railways. Having arrived at a conclusion as to the amount which should be properly included in each of those accounts, it can then calculate the total amount necessary to cover the expenses of providing the standard of service which has been decided upon. Its decisions as to an increase in the rate level will then depend upon whether revenue from existing rates will be sufficient to pay that total and upon any other sources of revenue which are to be taken into account.

In order to provide some perspective as to the magnitude of the various items in railway expenses, the following table is presented from the 1948 annual report of the C P R :

	(\$ millions)
Maintenance of Way and Structures	68.4
Maintenance of Equipment	72.6
Traffic	7.7
Transportation	154.1
Other Expenses, including taxes except income tax	29.0
Total	381.7

RAILWAY SERVICE—STANDARDS AND COST

A somewhat different breakdown of this same total would be as follows:

	(\$ millions)
Wages**	181.0
Depreciation**	28.5
Cost of Materials and Supplies**	108.4
Other	15.8
Total	\$317

In dealing with a rate increase application, the Board would, of course, give attention to each of these items and to the components of each of them. In this present submission, however, we do not propose to deal with each component but rather to devote our attention to a few of the more important of them. A separate chapter is devoted to depreciation charges and other methods of providing for the cost of assets used up, and another separate chapter deals with expenditures for maintenance of road and rolling stock. In this present chapter we propose to deal with certain broad questions which are applicable to expenditures generally and to some aspects of the expenditure accounts which are not dealt with in the detailed chapters.

The Elimination of Unnecessary Expenses

In its attempts to determine the cost of providing a given standard of railway service, the Board should give careful attention to the need for eliminating all unnecessary expenses with a view to securing, for the people of Canada, the standard of service which is decided upon at the lowest possible cost consistent with that standard. The first point to which we would draw attention in this connection is that the Board should have the authority and responsibility to see that the Canadian railways take full advantage of the equipment available to them and of modern improvements which will have the effect of providing a satisfactory standard of service at a lower cost. Obviously, with the limited technical knowledge of these matters which is available to us, it is not possible for us to give any precise suggestions in this regard. But it is our view that your Commission should recommend that the Board of Transport Commissioners should give continuous attention to this matter and that in considering the level of freight rates to be established, it should take into consideration the possibility that further improvements in railway operating techniques and in railway equipment might materially reduce operating expenses and consequently increase the operating profits which would be secured from any given level of rates.

This question of the efficient use of railway resources is not limited to the use of plant and rolling stock but it applies to the use

(C) Annual report—page 49.

(D) Annual report—page 39.

(E) Exhibit 65-100.

of labor as well. Both in the interests of maximum total production in Canada and in the interests of eliminating unnecessary railway expenses we feel that the present shortage of manpower in Canada calls for the utmost effort to see that full use is made of every man put to work in the interests of the railways. We are fully aware that the requirements of safety under emergency conditions will usually lead to situations in which there is an apparent duplication of functions among railway operating employees and we would not suggest that such duplications should be eliminated. But many persons who are not familiar with railway operating conditions have formed the impression that duplication of functions among railway employees is not needed to maintain a high safety standard. A major study by a highly qualified staff would be necessary to determine whether such unnecessary duplications are common and to assess the savings in operating expenses which might result if such duplications were eliminated. We do not intend to suggest specific measures with regard to this matter, but we do suggest that the railway equipment we feel that such duplication is almost inevitable, but the problem should receive a better view from the Board of Transport Commissioners and that possible savings from its elimination should be taken into account in future rate cases.

I would like to refer to this matter of the efficient use of railway equipment and also to that of the elimination of unnecessary duplication of railway services. In practice the main problem of duplicate railway services is to confirm the fact that the main lines and the two great railway systems of Canada provide services which are almost parallel to each other. This matter is referred to in Section 2 of the Order in Council P.C. 4633 which states that your Commission should

Review and report on the results achieved under the Canadian National Canadian Pacific Act, 1916 and amendments thereto dealing with recommendations as the present situation warrants.

Now again the limited technical knowledge which is available to us makes it very difficult to offer concrete suggestions. We would point out, however, that at the hearings before the Board of Transport Commissioners in the fall, because apparently the Board held that it could not deal with this question because the Canadian National Canadian Pacific Act provided that regulations in question should be made by Parliament. It is our view that your Commission should recommend a change in this legislation so that in future rate cases the Board of Transport Commissioners will be able to take into account in its decisions any evidence which is available with respect to cooperation between the two railway systems and the possible savings which might result therefrom.

The Relation Between Wage Levels and Rate Levels

A full study of the problem of transportation in Canada will not be complete if it does not take into consideration the wage level earned by the Canadian railways. It is the largest single item of their operating expense. In 1946 wage payments by the C.N.R. and

the C.P.R. totalled \$426.6 million, accounting for 57% of the total working expenses paid out in that year by the railways. Estimates provided by the two railways show that the increase of 17c an hour awarded in 1946 to all railway employees added \$67 million per year to the operating expenses of the two companies. The close connection between wage expenses and freight rates was pointed out to your Commission by Premier Campbell, in his presentation at the Winnipeg Regional Hearing, in these words:

"I do not wish to become involved in details regarding the relative importance of increases in operating costs resulting from wage increases, traffic volume increases, increased depreciation provisions, increased prices for materials, or increases from other causes. I merely wish to point out that all these items should be reviewed from the point of view of the public good. The recent freight rate increases have been authorized to cover higher operating costs. One of the important causes of these higher operating costs is the higher wage bill of the railways as a result of increases granted their employees. Thus, one of the issues is a decision as to whether Canadians should pay higher freight rates in order to ensure to many categories of railway employees a level of wages higher than that paid for comparable work elsewhere throughout Canada. In our view this is a matter which is too important to be overlooked in your deliberations."

Recognizing the close relationship that exists between railway wage costs and railway operating costs generally and the amount of money which the Canadian people must make available to Canadian railways, either through freight rates or by some other method, we are submitting for consideration the 1946 and 1948 data from Exhibit 49/117 filed in the 20% case by the C.N.R.

CANADIAN NATIONAL RAILWAYS—CANADIAN LINES

Rates of Pay, 1946 and 1948, Certain Classes of Employees

Classes of Employees	Rate Per Hour		Classes of Employees	Rate Per Month	
	1946	1948		1946	1948
	\$	\$		\$	\$
Sectionman—Line	.80	.80	Agent	197.31	226.00
Sectionman—Yard	.74	.81	Agent	223.31	254.00
B & B. Carpenter	.81	1.00	Agent	226.31	261.00
Car Inspector	.80	1.15	Operator	180.31	219.00
Corman Helper	.82	.80	Operator	190.31	221.00
Machinist's Helper	.83	.80	Operator	190.31	221.00
Machinist's Helper	.84	1.01	Comptometer Operator	158.31	180.37
Coach Carpenter	1.05	1.25	Typist	153.31	186.37
Freight Carman	.86	1.15	Stenographer	155.31	182.37
Machinist	1.05	1.25	Clerk-Typist	163.31	194.37
Weldermaker	1.06	1.25	Clerk-Stenographer	166.31	200.37
Classified Laborer	.72	.80	Clerk	243.31	275.37
Common Laborer	.68	.85	Clerk	266.31	303.31

Classes of Employees	Rate Per Day	
	1946	1948
	\$	\$
Yard Foreman	8.79	10.51
Yard Helper	8.30	9.66

Classes of Employees	Unit Miles	Rate	
		1946 \$	1948 \$
Loco. Engineer — Passenger	100	8.17	9.35
— Freight	100	9.42	10.73
Loco. Fireman — Passenger	100	6.73	8.09
— Freight	100	7.58	8.94
Conductor — Passenger	150	8.64	10.00
— Freight	100	8.05	9.41
Brakeman — Passenger	150	6.64	8.00
— Freight	100	6.73	8.09

The latest available statistical data issued by the Dominion Bureau of Statistics on Employment and Earnings by Industry, taken from the Labour Gazette of August, 1949, shows the average weekly salaries and wages for the nine leading industrial groups as follows:

Manufacturing	\$44.45
Logging	44.58
Mining	49.68
Communications	39.98
Transportation	51.09
Construction and Maintenance	40.83
Services	28.30
Trade	37.15
Finance	41.24

Average for the nine groups \$43.08

Within the Transportation group the employees in steam railway operations received the highest rate of all those listed, namely, \$56.64 per week. Within the Construction and Maintenance Group, employees in railway construction and maintenance received an average of \$42.91 per week.

It is apparent, therefore, that wages paid to employees in steam railway operations in Canada are now at a level which compares very favourably with wages in the highest wage industries in the country and which is very substantially above the general average of wages in Canada. In view of this fact, and because there is, without question, a direct connection between wage increases and freight rate increases, the Manitoba Government believes this aspect of the transportation problem should receive your Commission's full consideration.

CHAPTER IV

Estimating Railway Operating Expenses

Item 2 of the Brief of Points reads:

"Since the railway transportation service must be paid for by the people of Canada, it is essential that some system be established whereby the expenditures and revenues of the railway system can be carefully scrutinized from the point of view of the public interest. In order that the level of railway rates can be determined on a basis which is fair both to the railways and to the public, a set of principles and a system of records must be adopted for use in determining what expenses are properly chargeable against those who use railway services and what standard of maintenance and improvements are desirable and necessary in the interests of Canada as a whole."

We have already expressed our view that the Board of Transport Commissioners should assume greater responsibility in regard to the decision as to "what standard of maintenance and improvements are desirable and necessary in the interests of Canada as a whole"

In this chapter and the two which follow it, we deal with the system which should be established so that "the expenditures and revenues of the railway system can be carefully scrutinized from the point of view of the public interest." In these same chapters we deal with the "principles" for use in determining what expenses are properly chargeable against those who use railway services." The question of the records necessary for that purpose is covered in a separate chapter. Still another chapter is directed to a consideration of the overall financial position of the company.

The Place of the C.N.R. in the Making of Freight Rates

Before any steps whatever can be taken toward a determination of the expenses necessary to provide a given standard of railway service, a decision must be reached as to what railway or group of railways is to be used as the yardstick in measuring expenses.

On first casual consideration it would seem obvious that the practical thing to do would be to take into account all the railways and to base decisions upon the average position of all the railways. This is, in fact, the practice which is followed in the United States and which works out quite satisfactorily there. It should be pointed out, however, that in the United States there are 30 or more Class I railroads, and that the taking of an average of 30 railroads automatically includes a number which are very efficiently operated and a number which are for one reason or another, operated in an inefficient manner. The result is that freight rates based upon the average of all the railways, are such as to offer good incentives to the efficient railways in the form of an opportunity to earn relatively satisfactory

STUDY OF THE C.P.R. AT OTTAWA HEARING

profits while at the same time putting strong pressure on the less efficient railroads to improve their operating methods. In Canada such a system would be completely impractical for the simple reason that there are too many too many railways and the peculiar characteristics of each are so important that any average cost method would prove unsatisfactory as a measure of the needs of either of them.

In the past the practice in Canada has been to use the results of the C.I.R. as the starting point for determining rates and charges. The reasons for this thing has been that the C.I.R. has been used since it started at length as a matter of convenience and because over the past 30 years. The first reason is the fact that the general structure of the C.N.R. was based upon a reorganization of a system of bankrupt or near bankrupt lines which had to face charges for services of the same type as those of the North American continent. Consequently a level freight rate of a type sufficient to cover operating costs of the C.N.R. and perhaps C.N.R. charges would mean that the people of Canada were being asked to provide the C.I.R. a level of rates far in excess of anything which could be justified by the needs of the C.I.R. alone. In our view this is a serious reason for rejecting the C.I.R. as a standard.

In addition to the question of the apportionment and separate structure of the C.N.R. there is the question of the current operating costs of the C.N.R. This aspect of the matter has not in the past received the same amount of attention but it is the aim of the Maritime Commission that it should receive greater significance than the corporate structure aspect. Even if the corporate structure and apportionment of the C.N.R. should be brought into some sort of other day, it would not be true that the operating expenses of the C.N.R. include the cost of operating a substantial number of lines which would not be kept in operation if the operating costs were to apply to a substantial enterprise. A number of such lines were kept in operation for reasons of national policy rather than for the sake of the operating of the lines and facilities and are now operated as part of the C.N.R. We might mention as examples the line from Quebec to Prince Rupert the line from Nain to Quebec and the interline from Fort Lorne to Halifax. We are not here questioning the fact that the welfare of Canada requires that these lines should be maintained as good working order. That is one matter but it does not justify a maintenance for reasons which would not apply to an enterprise operating on a business basis. In fact there are a number of lines that it would be necessary to establish a level of freight rates to be charged in order to make up the difference to the C.N.R. would alone if it maintained and operated themselves. If that were done the revenues of the C.I.R. would be alone in operating needs by a corresponding amount and the C.I.R. would have a level of profits substantially in excess of what could be justified in relation to the C.P.R. alone.

As in the case of the high Oued charges of the C.N.R. as in the case of these unreasonably low, it is our view that it would not be

sound policy to establish a level of freight rates which would allow these high charges to be met out of C.N.R. revenue alone without regard to the needs of the C.P.R.

Still a third reason for insisting upon the use of the C.P.R. as the yardstick for rate-making, lies in the fact that the C.P.R. is a privately owned railway operating in competition with the C.N.R. Unless the level of Canadian freight rates is high enough that the C.P.R. has a reasonable opportunity to earn a satisfactory return if operated efficiently, it cannot maintain itself as a privately owned enterprise. On the other hand, the people of Canada will insist that the level of Canadian freight rates must not allow the C.P.R. to earn exorbitant profits for its shareholders. If there is any widespread feeling that exorbitant profits are being earned, the status of the C.P.R. as a private corporation will be seriously challenged. For these reasons it is our view that, in the future, the level of freight rates in Canada will have to be geared closely to the needs of the C.P.R. unless the C.P.R. is to face the risks of bankruptcy or nationalization.

To attempt to base freight rates upon the overall position of the C.N.R. or even upon an average of the C.P.R. and the C.N.R. would, in our view, greatly magnify these risks. For these reasons it is our view that the principle which has been established in the past is still sound and that the C.P.R. should continue to be the yardstick for rate-making.

At this point we would like to refer parenthetically to subsection (c) of section (2) of Order-in-Council P.C. 6033 which directs your Commission to consider whether it would be advisable to establish and maintain the fixed charges of the C.N.R. "on a basis comparable to other major railways in North America."

The reference in this subsection is to fixed charges alone. It is our view that any reorganization of the financial structure of the C.N.R. must take into account a number of other factors of which one is the element of current operating expenses which represents the losses on uneconomic lines. Another is the peculiar position of equity capital in the C.N.R. when compared to privately owned lines. We do not propose to discuss these matters further in this present submission except to express the view that the mere scaling down of the fixed charges of the C.N.R. without regard to the other factors, would be far from a satisfactory solution of the financial problems of the C.N.R.

Our views with respect to the financial position of the C.N.R. and with respect to the position of the C.N.R. in the determination of the level of Canadian freight rates, should not be interpreted to mean that we think the C.N.R. should be ignored in these matters. The C.N.R. is a major factor in Canadian transportation. In miles of track, in tonnages moved, in number of employees and in nearly all measures of size, it far surpasses the C.P.R. The standard of service offered by it compares favorably with the C.P.R. and in many

aspects of its operations its practices and experiences follow closely those of the C.P.R. Careful attention should therefore be given to its operations and its results which will be of great assistance in estimating the cost of many specific services. But we are strongly of the view that the overall total results of the C.N.R. should form no part of the calculations which determine the level of freight rates to be charged in Canada.

Individual aspects of its operation will however, be extremely important both for their own sake and for the sake of comparisons with the C.P.R. We have in mind here such items as the maintenance practices, the depreciation provisions, the changes in operating costs as a result of changes in wage rates or in prices for materials and supplies. A study of one or more of these expense items over a period of years for the C.N.R. may be very revealing as compared to the experience of the C.P.R. on the same items. For example, if the C.N.R. has increased its maintenance expenses by 50% during a period when the C.P.R. has increased its maintenance expenses by 65% that in itself would indicate that careful attention should be given to C.P.R. maintenance policy before its maintenance expenses could be accepted as a measure of necessary and proper maintenance costs. Similarly, if C.N.R. annual depreciation provisions had been such that in 10 years they would have equalled the total depreciable capital investments while C.P.R. annual depreciation had been such that the total value of depreciable capital would have been accumulated in 25 years a study of that feature would also be indicated. But the relative magnitude of these various items in the two railways and the relationship between revenue and expenses and between net revenue and capital are so different in the two railways that it would be fundamentally unsound in our view to take the total overall results of the C.N.R. as the basis for calculations leading to the establishment of a new general level of freight rates.

Rail and Non-Rail

The range of activities carried on by the C.P.R. makes it clear that some decision must be reached as to which of these activities are to be taken into account in calculating the revenue and expenses of the C.P.R. for the purpose of determining the level of freight rates in Canada. This is a matter which received considerable attention in the recent rate cases and upon which a large volume of detailed evidence is available. We do not propose however to attempt to analyze that evidence. For the purposes of your Commission it seems much preferable to direct attention to the principles which should be followed in making the division between those C.P.R. activities which are to be considered as rail activities and hence taken into account in freight rate calculations and those activities which are to be considered as non-rail activities and hence excluded from such consideration.

It seems to us self-evident that the first principle in this regard should be that once a decision has been reached to include a given

activity in the rail category then that activity should be included in the rail revenue accounts, the rail expense accounts, and the rail capital accounts. Similarly if a given activity is classified as non-rail and its revenue is not added into rail revenue then it should follow that the current expenses and capital charges appropriate to that activity should also be excluded from rail expenses and rail capital charges.

This principle seems to us so sound that it needs no argument in its support but its application in practice will require close scrutiny of C.P.R. accounts and may upon occasion require the arbitrary division of certain items between the rail and non-rail accounts.

The second principle which in our view should be followed is the division between rail and non-rail is that the rail category should include all activities which are an integral part of the railway transportation activities of the company. We fully realize there are a number of the activities of the C.P.R. Corporation which do not clearly fall either into or out of the group which are an integral part of the transportation activities. It is our view however that the rail category should include as the activities of C.P.R. express and C.P.R. telegraphs and that those water transport facilities which are direct links between rail facilities should also be included. On the other hand it seems equally clear that assets such as C.P.R. holdings in Consolidated Mining and Smelting and activities such as ocean steamships belong in the non-rail category. A careful and comprehensive study would be required however to reach a final decision on the more doubtful activities such as C.P.R. hotels and systems such as the New Line Railway and the Toronto Terminal facilities where C.P.R. owns a part or a full interest in an enterprise which is very closely related to C.P.R. rail transportation but which may or may not be considered an integral part of C.P.R. rail transportation.

Our position on this matter was stated in Item II of the Brief of Points, which reads as follows:

It is our view that an accounting division of the C.P.R. corporation should be made between railway operations and non-railway operations both for capital purposes and for the purposes of current revenue and expenses. It is our submission that certain activities which are not completely railway operations, but so closely allied with the railway that for operating purposes they should be considered as part of the system."

In this same connection also, we would suggest that your Commission should undertake its own study or recommend that the Board should undertake a study of the possible advantages which might result from a consolidation of the various corporate entities which own sections of rail lines which are operated as part of the C.P.R. Such a project would require careful study of the legal, accounting and financial matters involved and of the effect upon the capital position of the C.P.R. generally. We have made no such study nor do we feel that any study which we might undertake could be sufficiently complete. In our view such a study could only be satisfactory if it were undertaken under the direction of some body which would

have full access to all the records of the corporations involved and which was acting on behalf of the people of Canada as a whole and not on behalf of any one interested party.

In concluding our remarks on this subject, we should make it clear that our suggestions with respect to the division of the C.P.R. corporation between its rail and non-rail components, is a suggestion for an accounting division only and for rate-making purposes only. From the point of view of overall financial stability and the resulting ability to finance on a cheaper and more satisfactory basis, we can see important advantages in the present corporate structure of the C.P.R. which covers both rail and non-rail activities. The disadvantages of that structure from the viewpoint of sound public supervision of railway transportation, can, in our view, be adequately disposed of by an accounting division without losing the advantages of the larger corporate structure.

Railway Operating Expenses of the C.P.R.

The 1948 Annual Report of the C.P.R. shows total railway operating expenses as \$336.8 million. This applies only to those aspects of the total activities of the C.P.R. which it, itself, classifies as rail operations. As already indicated, it is our view that certain other activities should be taken into account, but for the purpose of illustration in the following discussion, we have been forced to use the rail accounts as applied to the group of activities which the C.P.R. classifies as rail.

In attempting to decide the level of freight rates which is proper for Canada, one of the first steps taken by the regulatory body must be a detailed examination of this figure and its components to determine whether it represents the amount which is properly chargeable against the people of Canada as representing the cost of providing the standard of railway service which the C.P.R. provided in 1948.

We do not propose to deal, in this present submission, with all the issues which such a scrutiny would entail, but certain highlights require illustration.

One of the most revealing tests of any figure of this type is to compare it with the corresponding figure in previous years. As soon as such a comparison is attempted, however, it is discovered that the figure of \$336.8 million is not comparable with the figure for earlier years quoted in the Annual Report.

In the first place, the 1948 railway operating expense figure includes the sum of \$2.5 million as the amount paid as income tax in respect to rail earnings during 1948. In the accounts for earlier years, the C.P.R. has added into rail operating expenses, the total of all income tax in respect to all the income of the entire corporation, both rail and non-rail. In the second place, the 1948 railway operating expense figure includes \$2.6 million paid out for joint facility

ESTIMATING RAILWAY OPERATING EXPENSES

rents and for hire of equipment.⁽¹⁾ In the earlier years these two items were deducted from railway operating revenue rather than being added to railway operating expenses.

The following table has therefore been prepared showing railway operating expenses for the years since 1935. In each case, expenses for income tax and for joint facility rents and for hire of equipment, have been eliminated.⁽²⁾

C.P.R. Operating Expenses

Year	\$ million
1935	107.1
1936	115.2
1937	121.3
1938	121.5
1939	122.8
1940	132.0
1941	163.1
1942	187.4
1943	230.0
1944	255.3
1945	261.9
1946	258.7
1947	283.7
1948	331.7

Average operating expenses for the 5 years 1935 to 1939, were \$117.6 million as compared to \$331.7 million in 1948. The increase, therefore, was \$214.1 million. In other words, operating expenses in 1948 were almost three times as great as in 1935-39.

Two questions naturally arise:

1. Were these increased expenses "desirable and necessary in the interests of Canada as a whole" and does the 1948 figure represent the amount which is properly chargeable as the cost of providing the 1948 standard of service?
2. To what extent have the increased expenses been paid for by increased revenue resulting from increased traffic volume and increased freight rates already in effect?

In its essential aspects, the long series of hearings before the Board of Transport Commissioners constituted an attempt to answer these questions and to decide what additional revenue, if any, the railways required.

It is not our purpose in this present context, to deal in any detail with increased earnings, but in order to give some indication of the situation, we would like to quote the corresponding increases in gross earnings. In 1948 the gross earnings of the C.P.R. amounted to

(1) Annual Report—page 9.

(2) 1935 to 1947, from Exhibit 49/49, 1948 from Annual Report.

\$352.6 million compared to \$141.4 million on the average from 1935 to 1939. As compared to that five year period, therefore, 1948 railway gross earnings had increased by \$211.2 million. In other words, the increase in gross earnings was almost exactly equal to the increase in working expenses.

During the hearings of the 20% Case, the C.P.R. presented estimates of the revenues and expenses which would have resulted from a full year's operation, at the volume of traffic which was handled in 1948, and at freight rates, wage rates and material prices which prevailed at the beginning of 1949. In those figures the revenue increase since before the war, was just slightly greater than the expense increase in the same period." It might also be pointed out that if the comparison is between the present position and the position in any of the years 1935, 1936, 1937, 1938 or 1939, the same situation is true. In every case the increase in revenue has been slightly larger than the increase in operating expenses.

In the following two chapters we deal in detail with two categories of expenses and make certain suggestions as to how the Board should proceed to reach a decision as to the amounts which should be made available to the railway for those purposes. We deal first with the provisions which are made to return to the company the funds laid out to buy the equipment which is used up. In the succeeding chapter we deal with the amounts spent to maintain the roadway, structures and rolling stock which are used by the company

CHAPTER V

Renewals, Retirals and Depreciation of Plant

At several points in this brief we have already expressed the opinion that the people of Canada must, either by freight rates or by other means, pay the necessary cost of providing Canada with railway service. Obviously, one of the costs is the amount necessary to provide for the retirement or renewal of the railway plant at the conclusion of its useful life. In this chapter it is our purpose to outline our suggestions as to the manner in which a decision should be reached as to the proper amount to be provided for that purpose. In order to clarify certain principles which the Manitoba Government submits to be in need of clarification, it will be necessary to deal with the question of plant retirement and renewal provisions in somewhat more detail than has been necessary in the other sections of this submission.

The C.P.R. in its present retirement policy, deals with its plant in three main categories:

1. Rolling stock
2. Road Depreciable—principally "structures"
3. Road Non-Depreciable—principally "way" including rails, ties, ballast, grading, track-laying and surfacing.

In 1948 the C.P.R. set aside \$28,523,000 in its depreciation reserves to provide for the retirement of assets included in categories "1" and "2" above. In addition, an indeterminate amount was spent for renewals of such portions of non-depreciable road as were retired in that year.

It is obvious that an item of this magnitude could not be overlooked in any thorough review of railway operating costs and consequently the question of propriety of the annual depreciation provisions of the C.P.R. was discussed at very great length in both of the recent rate cases.

Past Practices

During its history, the C.P.R. has used three different methods to recover or preserve the basic value of its capital assets used in the service of the public. The three methods are:

- 1 The renewal method—Under this method, when the plant is first purchased, its original cost is paid out of capital and the investment of the owners in the company is increased accordingly. When the useful life of the asset is ended and a new

asset is bought to replace it, the cost of the replacement unit of like capacity is charged to the user as an operating expense of the year in which the replacement is made. The "first original" cost remains in capital account--presumably in perpetuity.

2. The retirement method—Under this method as with renewal accounting the "first original" cost is capitalized. But when the useful life is ended the user through current operating expenses, is charged an amount equal to "first original" cost and the funds so released are used to remove the item from capital account and reduce investment accordingly. The cost of the replacement is capitalized and takes the place of the "first original" cost of the retired asset, in the investment account.
3. Depreciation Accounting. As in the other cases, the "first original" cost of the asset is capitalized. Thereafter the user pays an annual amount through current operating expenses sufficient that when the annual amounts are accumulated during the useful life of the assets, they equal the "first original" cost. When the unit is retired, the accumulated reserve is used to offset the "first original" cost and remove it from the investment account. The cost of the replacement unit is then capitalized in the same way as in the retirement method.

Depreciation accounting is thus seen to be one among several methods of dealing with the same problem. Its peculiarity lies in the fact that when it is used, the original cost of a capital asset is spread over the years of its useful life.

A definition of the term "depreciation" which was quoted with approval by both sides in the recent rate cases, was this:

"Depreciation accounting is a system of accounting which aims to distribute the cost or other basic value of tangible capital assets less salvage if any over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation not of valuation. Depreciation for the year is the portion of the total charge under such a system that is allocated to the year. Although the allocation may properly take into account occurrences during the year it is not intended to be a measurement of the effect of all such occurrences.

In all three cases the owners of the company provide the original capital for the purchase of the assets on first acquisition. The fundamental distinction between the three methods is this. In the case of renewal accounting, the users of the service pay for the replacement in the year in which it goes into service as a replacement. In the case of retirement accounting, the users of the service pay for the asset in the year in which it goes out of service. In the case of depreciation accounting, the users of the service pay for the asset by means of a regular annual charge which is set aside and accumulated into a reserve.

RENEWAL, RETIREMENT AND DEPRECIATION OF PLANT

The C.P.R. has used each of their three methods at different times in its history and for different parts of its capital equipment. It began with the first method, the renewal method, and it showed that practice for all three classes of plant until 1930. At that time rolling stock was changed to the second method, namely the retired basis, whereas road structure remained on the renewal system.

During the 1930's the C.P.R. handled its rolling stock according to the retired system which had been introduced in 1930 but in 1940, depreciation accounting was introduced in respect to rolling stock. In 1947, a substantial part of the road assets were transferred directly from renewal accounting to depreciation accounting although the major part of road investments was retained in the renewal system. In other words in 1947, road assets were divided into two groups, road depreciation and road non-depreciable. The first group consists mainly of road structures and is considerably smaller in value than the second group which consists mainly of railroad trackage.

It will be noticed that this changes the method of dealing with the cost of capital equipment, in a relatively new thing with the C.P.R. and consequently comparisons between the accounts of the C.P.R. in the years following the war with the accounts of the C.P.R. in the years immediately preceding the war are complicated by the necessity of taking this change into account. For that reason it is not possible to give for the years 1945 to 1949 an item which is strictly comparable to the \$26,250,000 which was set aside for depreciation reserves in 1939. The best available comparison would be to add together rolling stock retirement and road structure retirement in the various years. Unfortunately, no figures are available regarding road retirement and consequently it is necessary to estimate structure retirement by applying an adjustment figure to retirement. If it be assumed that road structure retirement was exactly double the figure for retirement in 1939 the 1948 figure of \$26,529,000 is comparable to a 1939 figure of \$9.6 million. "

Obviously, the mere fact that the provision for capital retirements has risen from \$9.6 million to over \$26.5 million between 1939 and 1948 does not in itself prove that the 1948 figure is excessive. The size of the expense does, however, call for careful investigation, and for the satisfaction of the War-time Government that your Commission should recommend the criteria and the procedures by which the Board of Transport Commissioners should be guided in attempting to reach decisions as to the propriety of the accounting policies governing retirement and renewal of railway plant.

In many respects the determination of the appropriate policy in this regard is one of the most difficult and complicated matters in the whole field of public utility regulations. If retirement accounting or profits accounting is being used the problem is still complicated although it is somewhat simpler than in the case of depreciation.

(1) 1947 Cash Status (B) D and J Rolling stock retirement \$9.6
Road structure retirement (B) 1 & 2) 16.9

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\$26.5

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accounting. In either renewal or retiral accounting, the problem is that of deciding upon which method is to be used, of determining the cost of the asset to be retired and of the new asset which is to take its place and of dealing with the fact that the new assets may involve some element of improvement or of increased efficiency and may therefore not be an exact replacement of the old asset. In the case of depreciation accounting, however, all these problems are equally important, and there is involved, in addition, the question of preparing satisfactory estimates of the useful life of the assets in question. Obviously, if the cost of the asset is to be distributed over its years of usefulness, it becomes necessary to establish, in advance, some estimate of the number of years during which it will be useful.

Before proceeding to an analysis of the method by which it is suggested that this question should be decided, it seems advisable to look briefly at the results which have been produced by the C.P.R.'s present depreciation provisions.

Rolling Stock Provisions

If attention is first directed toward the rolling stock item, the situation is as follows. The annual amounts provided each year from 1940 to the present, have been as follows.

	\$ million
1940	10.3
1941	12.7
1942	12.8
1943	14.0
1944	15.2
1945	15.5
1946	14.4
1947	14.9
1948	18.9
Total	128.7

The value of the rolling stock capital items retired against the reserve each year, have been as follows:

	\$ million
1940	4.8
1941	2.1
1942	1.2
1943	1.7
1944	2.2
1945	3.6
1946	4.1
1947	8.4
1948	4.2
Total	27.2

(1) 30% Case, Exhibit 281A, 20% Case, Exhibit 48/21, Annual Report, 1948

The first point to which we would like to direct attention is that during this period the amounts set aside in the depreciation reserve have averaged \$14.1 million per year while retirements charged to the reserve have averaged only \$3.0 million. In other words the annual amounts set aside to pay for capital items used up have averaged 4.7 times (almost 5 times) as much as the amounts taken out of the depreciation reserve to pay for the capital items retired during the period. It is of course true that in any one year or in a number of years the situation may be such that the company is using its capital equipment to the full and is buying new equipment and not retiring old equipment; if that situation exists it is right and proper that the amounts set aside in the depreciation reserve should be substantial in excess of the cost of the capital items retired. If however depreciation provisions are greatly in excess of retirement for a period of time which is a significant part of the total lifetime of the assets in question, then that situation is not satisfactory.

Some indication as to whether or not this is an abnormally low figure can be secured from the record of retirements in previous years. It has already been pointed out that between 1940 and 1948 retirements charged against the rolling stock depreciation reserve averaged \$3.0 m. per year. This figure retains the cost of items retired minus their salvage value when retired. No strictly comparable figures are available for earlier years but comparisons can be made on the basis of the cost of items retired i.e. without the deduction of salvage. From 1940 to 1948 gross retirements averaged just under \$4 million per year. In the preceding ten years they averaged \$3.6 million per year while during the ten years 1929 to 1939 renewals of rolling stock averaged \$5.5 million per year.

Another perspective on this matter is to consider the annual depreciation provisions in relation to the total value of the assets against which they are being accumulated. At Dec 31 1939 the total investment in rolling stock capital was \$365 m. per. By Jan 1 1940, the total was \$44.4 million. The average of these two figures is \$202 million. If that figure of \$202 million is accepted as representing the average investment during the period then the amount to be recovered out of depreciation reserves would be \$202 million minus the estimated salvage value of the assets when they are retired. But during the years from 1940 to 1948 annual depreciation provisions averaged \$14.1 million. At that rate the entire \$202 million would have been accumulated from the users of the service in 25.3 years. If that rate were maintained the C.F.R. would therefore have provided excessive depreciation to the extent of anything that was recovered from the sale of salvage plus any amount accumulated if, on the average, this equipment remained in service more than 25.3 years.

It would appear that the majority of the railway rolling stock will, in fact, be in service substantially longer than that number of

years. In fact, the shortest number of years of service life mentioned by the judgment in the 21% Case, were as follows:

For locomotives	35 years
For freight cars	28 years
For passenger cars	29 years

It is obvious that if present rolling stock should continue in service for that length of time, and if the depreciation provisions of the period 1940 to 1948 should be continued year by year, the amount which would be accumulated would be far in excess of the total cost of the equipment.

It should be made clear at this point that the criticism of this situation is not directed at the attempt by the railways to recover from the users of their service, the cost of the capital items which have been used up, rather, the criticism is that the annual amounts set aside in recent years have been too large in that they have been such that if they continue in effect, the users of the service will be called upon to pay the full cost of the assets and a rather substantial sum in addition. It is acknowledged that the users must pay back the cost of the equipment. The objective in criticizing the present practices is to prevent the development of a situation in which the depreciation provisions return the full original cost of the equipment and provide something in addition. If one refers back to the definition of depreciation which was quoted at the outset of this section the criticism is that the depreciation provision is not being used as a process of allocation of the cost of equipment, but that it is being used as a means of collecting a sum in excess of the original basic value of the capital assets. The recommendations which are to be presented hereafter are designed to ensure that this situation will not be allowed to continue in the future and to prevent the establishment of a freight rate structure in Canada which will, to some extent, be based upon charging the users of the railways an excessive amount for these purposes.

Recommendations

For the sake of clarity, it seems advisable to list our recommendations at this point and then to develop each of them in some detail. On the question of accounting provisions for plant retirement, the Manitoba Government feels that your Commission should make the following recommendations:

- 1 That the Railway Act should be amended in such a way that it is made clear that the authority and responsibility for setting the retirement and renewal practices to be used for rate making, lies in the hands of the Board of Transport Commissioners and not in the hands of any interested parties, either the Railways or the users of the service.

- 2 That the Board of Transport Commissioners should have the authority and the responsibility for determining which assets are to be treated on the basis of retiral accounting or of renewal accounting or of depreciation accounting
- 3 That the Board of Transport Commissioners should undertake its own independent studies of service life of those assets which are to be handled on the basis of depreciation accounting
- 4 That in dealing with those assets which are to be handled on the basis of depreciation accounting the service life data should be calculated in terms of years rather than in terms of units of mileage or traffic volume. In other words, that the depreciation where it is used should be calculated on a straight line basis rather than on the present user system.
- 5 That the Board of Transport Commissioners should establish the necessary administrative machinery for maintaining a continuous review of all the above decisions.

The Board Should Determine Policy

With respect to recommendation "1" we would point out that this is simply a restatement of the basic premise which underlies the whole submission by the Manitoba Government namely that in all these matters the final authority and responsibility should be in the hands of the Board of Transport Commissioners. In the past this has in no means been clear for in the W's case the Board was requested to order the C.P.R. to produce the information lying back of its depreciation formula, but chose to refuse that request with the result that in its decision it was only able to make arbitrary adjustments in the depreciation provisions without any sound analysis of what the proper provisions should have been.

It should be made clear immediately that there is no suggestion here that the Board of Transport Commissioners should control the internal bookkeeping arrangements of the C.P.R. What is requested is that the Board should lay down the principles to be followed in the calculations for the purpose of fixing freight rates to be charged in Canada. If for operating purposes or for tax purposes, the Railway wishes to use some different set of records, that is a different matter with which the Board of Transport Commissioners need not concern itself. In accounting for rate-making purposes, the major issue is to keep a clear distinction between money belonging to and contributed by the owners of the corporation and money belonging to and contributed by the users of the corporation. In its efforts to reach decisions on rate level matters the Board of Transport Commissioners should require that these distinctions be drawn with particular clarity and particular precision in order that the users of the service will derive full credit for that part of the company's money which has been contributed by the users. If this is not done

the result may be that the users of the service will be called upon to provide the capital in the first instance and will then later be called upon to provide a depreciation reserve to return to the company the cost of the assets which have been bought with that capital.

Which Assets are to be Handled by Renewals and by Depreciation

The second recommendation on this subject is that the Board of Transport Commissioners should decide as to which assets are to be dealt with by each of the three methods —retra, accounting, renewal accounting or depreciation accounting.

In order to present our views on this matter, it is necessary to give a somewhat detailed description of the methods which have been followed by the C.P.R. in regards to its road assets. As has already been pointed out, road property was handled on the basis of renewal accounting from the beginning of the corporate history of the C.P.R. until July 1st, 1942. From that date to the present, part of road property has been handled on the basis of depreciation accounting and the remainder has remained on renewal. The major accounting categories upon which depreciation is not calculated, are the following: (non-depreciable road)

- Grading
- Ties
- Rail
- Other track material
- Ballast
- Track laying and surfacing

The road items upon which depreciation is provided, are the following: (depreciable road)

- Roadway machines
- Public improvements
- Tunnels and subways
- Bridges, trestles and culverts
- Fences, snowsheds and signs
- Stations and office buildings
- Roadway buildings
- Water stations
- Fuel stations
- Shops and engine houses
- Grain elevators
- Storage warehouses
- Wharves and docks
- Coal and ore wharves
- Telegraph and telephone lines
- Signals and interlockers
- Power plants
- Power transmission systems
- Miscellaneous structures

The depreciation provided on these items in 1948 amounted to \$9,667,452. . .

During the six years from 1943 to 1948, inclusive, the amount charged against the user and set aside in road property depreciation reserve, amounted to \$47.5 million. . . On the other hand, the total of all road property retired and paid for out of the road property depreciation reserve amounted to only \$6.2 million. . . There is no evidence in the rate cases to indicate that renewal accounting is not now being carried on largely as it existed prior to the inception of depreciation accounting. If that is so, the user of 1949 is being called on to pay for heavy renewals as he did in the earlier years, charged to him through maintenance, and in addition is being called upon to provide annual amounts for retirement which may never take place. The fact that renewal accounting is being used in these assets is suggested very strongly by the fact that during the five year period 1943 to 1947 the total value of all depreciable road property assets which were paid for out of capital amounted to only \$19 million. . . The 1948 figure for depreciable road is not obtainable from the published accounts. If depreciation accounting had been strictly applied, this would mean that the total cost of all improvements to depreciable road property plus replacements of depreciable road property, averaged less than \$4 million per year while during that same period the amounts being set aside in the depreciation reserve averaged \$8 million per year.

The Manitoba Government is of the view that the C.P.R. is on sound ground when it treats its different assets on two different bases for the purpose of providing for retirement or renewal. We do, however, criticize the particular division which has been made and we would express the opinion that a number of road items which are handled on the basis of depreciation accounting, should be handled on a renewal basis.

The system of renewal accounting was used by the C.P.R. for something over fifty years for all assets and for over seventy years for road property and apparently proved to be reasonably satisfactory. This was probably because the system of renewal accounting and the system of depreciation accounting will result in the same annual charge to the user of the system if two conditions exist

1. If the replacement of assets take place at a uniform rate year by year.
2. If the price level as reflected in the cost of assets does not change.

On the other hand, even if both these two conditions are absent the total cost to the user over the entire life of the assets, will be identical in any case. For these reasons it seems to the Manitoba Government that the decision as to which of these two systems is to be used should turn upon—

(1) Annual Report, page 24.

(2) 20% Case—Exhibit 226. 20% Case—Exhibit 65 To Annual Report—page 28.

- (a) the adequacy with which the system proposed lends itself to public supervision, and
- (b) the adequacy with which it meets the problems created by change in price levels, and
- (c) the adequacy with which it meets the problems created by changes in the annual rate of replacement of capital assets.

In attempting to reach its decision as to whether a given group of assets should be handled on the basis of renewal or depreciation the Board obviously must take into account the information which would be required if an adequate system of public supervision is to be maintained. If the system is to be that of renewal, the information required is the present cost of the replacement item. If on the other hand the system is to be that of depreciation then the same information as to the cost of the replacement item is necessary and in addition it is necessary to prepare in advance an estimate of the useful life of the asset in question. It is therefore, in our view, extremely important to consider whether information as to probable useful life can be secured for any group of assets before this decision is taken. It is equally important to determine whether company policy either in the form of deferring replacement or in the form of a policy of heavy maintenance can materially change the average life of the equipment after the life estimates have been prepared.

In a substantial number if not all of the assets included in the road depreciation account it is impossible to prepare service life estimates with sufficient accuracy to institute a depreciation accounting system without incurring a serious risk that these service life estimates will prove in practice to be far from the actual results. In part this is a result of inadequacy of the data and this point will be discussed more fully in the section dealing with service life estimation. But a more serious source of error lies in the extent to which the life of road assets can be prolonged or shortened by management decisions as to maintenance.

Because of this element of doubt in any estimation of service life there is an element of risk both to the user and to the railway if depreciation accounting is introduced. If service life should be under-estimated the user is called upon to provide unnecessarily large reserves. If service life should be over-estimated the railway runs the risk that it will not have adequate reserves when the assets are no longer useful. The result is that if such a system is established by the railways the tendency, inevitably, will be to set cautious estimates and to make sure that reserves will be ample. On the other hand if the system of renewal is used the railway runs no risk that its assets will not be paid for and the user on the other hand runs no risk that he will be charged excessive amounts. For this reason alone it is the view of the Manitoba Government that renewal accounting should be carefully considered in relation to all the road assets both way and structures.

Moreover in the case of a change of price level it is the view of the Manitoba Government that the residual method provides a much more satisfactory method of handling the situation than that provided by depreciation. From the point of view of the railway it is preferable that a well established method be used to collect from the users of the system the sum higher cost of the replacement. On the other hand from the point of view of the Canadian public who are the users of the service it seems even that it is much preferable that the cost of extensive new assets purchased in periods of high prices should be paid if immediately and should not be spread to become the cause of continuing charges which will be levied regularly over a long period into the future when prices and the level of business activity may be lower and the public then much less able to bear charges.

The question of the uniformity of replacement of assets still remains to be considered. If assets are replaced steadily year by year the two systems used approximately the same annual results. If on the other hand there is a tendency for replacement to become necessary in sets over large groups, then the situation is different. The record of the P.R. in the past indicates that additions to road structures assets form a relatively small proportion of the total investment in those assets. This is a direct reflection of the relatively long life of this type of asset. Consequently any fluctuations in the yearly amount of replacement of road structures items will be less likely to have serious consequences for revenue operating expenses. For this reason we think that this particular consideration, although it lends in favour the use of depreciation accounting in theory is of considerably less significance in the case of the road than it is in the case of rolling stock items.

The Manitoba Government is therefore of the view that this whole question of the decision of rolling assets between those which are to be taken care of by residual accounting and those which are to be taken care of by depreciation accounting should be reviewed by the Board of Transport Commissioners and that in the interests of adequate supervision and in the interest of the firm and definite disposition of the additional costs which may arise from any increase in price levels, residual accounting should be suggested in all those groups of assets where the life is long and where in consequence the year to year replacement tends to be relatively steady and tends to be a relatively small part of the total assets or where management policy with respect to maintenance can have a material effect on lengthening or shortening life. On the other hand depreciation accounting should be instituted for those items in which the life is short where the annual replacements tend to occur in batches and where there tend to be other periods when replacements are much less significant. We do not propose at the moment to give any specific recommendations as to which assets should be handled in each method but it is our general view that for rolling stock items the depreciation provision is more desirable, whereas, among the road items, it is doubtful whether there are many cases where depreciation should be used.

The Board Should Make Studies of Service Life

The third recommendation, namely that the service life studies necessary for any system of depreciation should be made by the Board of Transport Commissioners rather than by the railways, follows directly from the fundamental proposition that the decisions in these matters should be with the Board. We do not consider that it is necessary to repeat again here the reasons which lead us to support this proposition. We do, however, feel that this question of service life studies is of sufficient importance that it should be treated as a separate matter and that a specific recommendation on it should be included in your report.

Service Life Data Should be Calculated in Years

A further basic question in connection with this service life data is to reach a decision as to whether service life should be measured in years or in terms of mileage travelled by equipment or tonnages hauled by the railways. In other words the decision is as to whether the service life data is to aim at a depreciation system which allocates the cost of the asset uniformly over the number of years which the asset is likely to be in service or whether it is to aim at a depreciation system which varies the annual depreciation provision in accordance with changes in traffic volume.

Obviously in order to make any study of service lives, it will be necessary for the Board to secure its basic data from the railways. This point automatically raises the question as to what factual data is actually available. The C.P.R. has an accurate record of the year when each asset went into service and it is therefore possible to ascertain exactly the service life in years of every asset retired and of every asset now in service. Consequently the data necessary to prepare estimates of service life in years, is available in the form of accurate records of life in years of existing assets and of old assets. The only element of estimation involved in a study of service life in years is that which attempts to relate the record of the past to the probable record of the present equipment when used under conditions which are likely to exist in the future.

On the other hand, a fully satisfactory study of the service life of assets measured in terms of miles, would require accurate records of the useful life of assets kept in terms of mileages. The C.P.R. has not produced any mileage records in any of the recent rate cases and it is doubtful whether they exist except for locomotives. With respect to road items such as snow fences, station buildings, etc., it would obviously be impossible to secure exact data relating their period of useful life of the number of miles moved by railway equipment or the number of ton miles of freight and passengers hauled by the railways.

It is our submission that the only real study of service lives which can be made is one which goes directly to the actual records

which exist and that the only existing records for all classes of equipment are those measuring life in years. We would go further and say that although, in the case of rolling stock, it might be possible with a good deal of work to accumulate records in terms of mileage, in the case of depreciable road items, particularly such things as snow fences, telephone and telegraph lines, grain elevators, water stations, etc., the mere accumulation of records of tonnages or ton miles handled by the railway during the period when those items are in use, would in no way provide information which could be considered as measuring the life of those items in terms of tonnages or ton miles.

The fourth recommendation in regard to this subject, flows naturally from the point just discussed. Since the only satisfactory service life data which is available is that which is expressed in years, it therefore follows that if the Board of Transport Commissioners is to have adequate data to test the system which is installed and is to be able to supervise the methods and application of depreciation in the future, that depreciation system must be one which is based upon service life in years. In other words it must be one which allocates the cost of the equipment over a given number of years. For this reason, in the Brief of Points, Item number 10 reads as follows:

"It is our view that in the interests of the public and particularly in the interests of adequate control and inspection, depreciation as used in the determination of Canadian freight rates should be calculated on a straight-line basis wherever it is allowed."

This should not be interpreted to mean that it is our view that straight-line depreciation should be used for all the assets which are now subject to depreciation accounting. As we have already pointed out it is our view that a careful study of the assets should be made to determine whether a substantial number of them, particularly in the road category, should not be returned to the renewal system followed from the beginning of C.P.R. history until 1942. Our present submission is that once that study has been made and once it has been decided that a certain group of assets are to be handled by depreciation accounting, then, for those assets, depreciation accounting should be on a straight-line basis.

Straight-line depreciation is, of course, different from the system which has been followed by the C.P.R. since it first introduced depreciation accounting. The C.P.R. "user" system has, as its objective, the allocation of the cost of the assets, in such a manner that the annual charge varies according to the mileage travelled by the equipment and according to the tonnage handled by the system as a whole. Such a system may have considerable merit from the point of view of corporate operations and from the point of view of business management. For such purposes we have no objection to its use, but for the purpose of the determination of the level of freight rates to be charged in Canada, it is our view that the primary requirement is that the system should be such that it is possible to

secure the data necessary to prepare an adequate check as to its fairness from the point of view of the railway company and the users, and as we have already pointed out, we are of the opinion that no adequate records are available except in terms of years. We therefore feel that the present "user" system should be rejected for rate-making purposes.

Administrative Machinery

Our recommendation number 5 needs very little elaboration. It is the same recommendation which we have made in respect to all other matters dealt with, namely that the Board of Transport Commissioners should be strengthened administratively both as to its powers and as to its personnel in order that it can continuously review its decisions in the light of changed circumstances. We feel that in this particular case of the provisions for retirement of capital assets, it is of more importance than in many of the other cases, that the Board should have a highly qualified technical staff available who would be continuously working on this field and who would therefore be familiar with the records and statistics in order that in any future rate case, the Board would have available to it, highly qualified independent technical advice and the necessary information and background upon which to reach its decision.

CHAPTER VI

Maintenance Expenses

The C.P.R. Annual Report for 1942 shows expenditures for Maintenance of Way and Structures and for Maintenance of Equipment at a total of \$140.9 million. The amounts set aside in depreciation reserves were charged against these maintenance accounts. Hence the depreciation provision of \$28.5 million must be deducted to give the amounts of \$112.4 million charged to the maintenance accounts in respect to physical maintenance work performed during the year.

As in the case of the renewals, retirements and depreciation, so in the case of the amount charged in respect to physical maintenance work this submission presents a relatively detailed analysis of the situation.

The level of maintenance chargeable for rate making was discussed at great length in the hearings on both the 30% Application and the 20% Application, but it is the view of the Manitoba Government that no satisfactory conclusion has yet been reached and we therefore suggest that our Commission should return the whole matter and should recommend some more adequate method of dealing with it. Among the studies which were proposed at the Manitoba Brief of Points, the third study was dealt with in the following terms:

1. One matter which formed the basis of much evidence and argument in both the 30% and the 20% cases was the question of maintenance both as to the standard of maintenance which is desirable in the public interest and as to the need to what maintenance expenses should be applied. It seems to be a sound matter of public interest to inquire into whether or not the railway which operating systems and its associated equipment had increased a rather substantial percentage in its maintenance charges. The Commission has done with respect to its intent to study such increased expenditures were reasonable or desirable in the public interest. It is not reported that that our Commission should undertake a study for the purpose of having definite principles to be followed in these matters in the future."

The matter of determining the standard of maintenance which is desirable in the public interest is in our view a vital part of the general problem of determining the standard of railway service to be provided in Canada. We have already dealt at some length with that matter. In this chapter we propose to discuss the methods by which one might measure the amounts spent for maintenance for the purpose of determining whether the maintenance account reflects the normal cost of maintenance attributable to the year under review or whether some element of improvement of capital equipment has also been provided or whether maintenance has been charged to the year under review, which properly should have been charged to an earlier or later year.

Maintenance Expenses in Recent Years

We have already stated that the 1948 expenditures of the C.P.R. in relation to physical maintenance were \$112.4 million. The comparable figures for the years since 1936 are as follows:

Year	\$ million
1936	85.9
1937	35.7
1938	31.8
1939	31.2
1940	39.4
1941	54.2
1942	64.6
1943	79.1
1944	93.4
1945	94.6
1946	92.0
1947	94.4
1948	112.4

The question at issue could be phrased thus: In 1948 the railways asked that they should be authorized to collect from freight rates in Canada, the amount of \$112.4 million to be spent for maintenance of way and structures and rolling stock. Is it "desirable and necessary in the interests of Canada as a whole" that they should be authorized to do so in the light of the fact that in the four years immediately previous to the war, they were able to maintain their way and structures and equipment for an average expenditure of \$33.5 million per year?

This record of the maintenance expenditures of the C.P.R. in the past 13 years immediately raises two questions:

1. To what extent are the increases due to increased wage rates and to higher material prices?
2. To what extent are the increases made necessary by higher traffic volume?

An answer to the first question lies in the fact that the C.P.R. has estimated that between 1939 and 1948 wage rates and material prices increased on the average by 69.4%. If one takes the 1939 maintenance figure quoted above and raises it by that percentage the result is the figure \$52.9 million. In other words the 1939 quantum of maintenance would have cost \$52.9 million if it had been paid for at the wage levels and the material prices which prevailed in 1948.

- (1) These figures have been calculated by subtracting from the total maintenance accounts the amounts set aside for depreciation or renewals or replacements according to which policy was applicable in the year in question. Depreciation and retire¹ figures are available directly from the accounts. In those years and for those assets where renewals were used, the renewal figure has been estimated as double the corresponding retire¹ figure. Data from Exhibit 345 (p. J and L, Exhibit 46/31 and Annual Report, 1948).

But in 1948 actual expenditures for that purpose are shown as \$112.4 million. There is, therefore, an increase of \$59.5 million which must be attributed to some cause other than the increase in wages and material prices.

Traffic volume, as measured by gross ton miles of traffic moved, stood in 1948 at a level 66.5% above the 1939 level. It is obvious that with a traffic increase of that magnitude there would inevitably be a need for a greater amount of work and of material and supplies if the railway were to be maintained at its former level. But question 2 above cannot be answered simply by saying that maintenance expenses would be higher. The question is "how much higher?" Attempts to answer that question both by provincial witnesses and counsel and by railway witnesses and counsel occupied a large proportion of the time consumed in both of the recent rate cases and in the appeal to the Dominion Cabinet.

In some cases these discussions were directed toward maintenance expenses as such. In other cases the discussions were in terms of the effect of traffic increases on total operating expenses. It does not seem appropriate to present the details of those discussions in this present submission. The conclusion reached by the Manitoba technical staff was that the level of 1947 maintenance expenditures estimated by the C.P.R. in the 30% case represented an increase of some \$30 million, above the 1939 level of maintenance even after full allowance had been made for increases in wages and material prices and for heavier expenses because of higher traffic volume. In regard to the 20% Application it was the conclusion of the Manitoba technical staff that the estimated increase over 1939 was sufficient to take care of increases in wages, material prices and traffic and leave some \$21 million which could not be accounted for in that way.

At no time did Manitoba suggest that the figures shown in the C.P.R. accounts did not accurately record the amounts actually spent. Rather the argument was that these amounts represent the 1939 standard of maintenance and something in addition and that the 1939 standard of maintenance had been sufficient to make possible an excellent rail service during the war years.

In reply the C.P.R. used two lines of argument. In the first place it contended that the proportion of operating expenses which varied with traffic was much greater than that used in the provincial calculations. In the second place it contended that whether or not the present standard of maintenance was higher than that of 1939 was irrelevant since in the opinion of railway operating officials the present standard of maintenance was lower than that which they considered proper.

(1) Exhibit 48/11 and C.P.R. Annual Report, 1948.

(2) McLean Arguments—Transcript, page 1005.

(3) McLean Arguments—Transcript, page 607.

The problem can thus be seen to have two aspects:

1. A factual one, to determine what additional maintenance expenditures are made necessary by a given increase in traffic.
2. A policy one, to decide whether the standard of maintenance is to be the same as or higher than or lower than some specified period in the past.

Discussion of Maintenance Provisions as Discussed in 21st Judgment

In its 21st Judgment issued March 30, 1948, the Board of Transport Commissioners did not, in our view, deal adequately with this problem. The discussion of it appears on pages 28 to 31 of the printed Judgment and those same pages deal with the question of the use of deferred maintenance reserves. The following quotation gives the main content of those pages omitting the references to deferred maintenance reserves. The formula which is described as the "Yager formula" is one of the formulas used on behalf of the provinces to estimate the increase in maintenance expenses which could be attributed to increased traffic volume:

I would hesitate to accept the results of the application of the Yager formula as applied in this case to a period of eight years wherein traffic has increased 88 per cent between the two periods under review. The American Railway Engineering Association clearly indicates the following in discussing the Yager formula:

"It is not recommended that the following method be applied to a condition where the variation of traffic exceeds one-third above or below that of the base period."

Had it been possible to apply the Yager formula each year from 1939 to the present time, I might have been more disposed to accept its results as applied to the Canadian Pacific or the Canadian National. But both railways have indicated to the Board that no index of cost of materials and wages is available for each of the years between 1939 and 1947.

For purposes of analysis, I have had prepared the following table, which shows for the Canadian National and the Canadian Pacific the maintenance of way and structures expenses per equated track mile for the period 1939-1946, excluding the deferred maintenance charges:

**Maintenance of Way and Structures
Expense per Equated Track Mile**

	Canadian National (Lines in Canada)	Canadian Pacific Railway
	\$	\$
1939	1,266	942
1940	1,384	1,047
1941	1,647	1,247
1942	1,868	1,651
1943	2,037	2,087
1944	2,409	2,472
1945	2,293	2,511
1946	2,254	2,432

MAINTENANCE EXPENSES

The first conclusion which may be drawn from the above table is that the maintenance expense on the Canadian National, taking the year 1939 as 100.00, had increased to 178.04 in 1946, whereas the Canadian Pacific had increased from 100.00 to 258.20. The second conclusion is that whereas the Canadian National level of maintenance of way and structures expenses per equated track mile was higher than the Canadian Pacific for the years 1939 to 1942, inclusive, since that time, the Canadian Pacific has been higher than the Canadian National. Road depreciation was initiated by the Canadian Pacific on the 1st July, 1942. This factor was probably influential in increasing the maintenance expense per equated track mile on the Canadian Pacific over and above the level of the Canadian National, and I restate hereunder the above table after eliminating the amounts charged in maintenance of way and structures by the Canadian Pacific for depreciation on road property.

Maintenance of Way and Structures—Canadian Pacific Railway Expense per equated track mile

1939	\$ 942
1940	1,047
1941	1,247
1942	1,519
1943	1,816
1944	2,173
1945	2,212
1946	2,161

It is evident that the introduction of road depreciation increased the maintenance of way expense per equated track mile by approximately \$300 per year since 1943. This influence is intensified when consideration is given to the fact that the method of depreciation used by the Canadian Pacific reflects the heavy traffic which has been offered to this Company in the last five years. Further mention will be made of the depreciation method used by the Canadian Pacific Railway.

The level of maintenance of way and structures expenses for 1947 as estimated (\$53,038,000) is an increase of five per cent over 1946, or in dollars the increase is roughly \$2,500,000.

Because of decreasing net earnings caused by the increase in prices of material and labour, instructions were issued by the management of Canadian Pacific Railway Company, in the first part of 1947, to drastically curtail the maintenance program of the company in connection with the maintenance of way. By June 1, 1947, traffic had shown somewhat of an increase in comparison with the similar period in 1946, and the curtailed maintenance of way appropriations were then somewhat liberalized. But, as Mr N. R. Crump, Vice-President and General Manager of Eastern Lines of the Company, states it was not possible to do all the work that they would have liked due to shortage of labour, and he says "... due to the curtailment in the first half of the year and the manpower shortage, which

persisted throughout the year the maintenance program for the Canadian Pacific is and will be less for the year 1947 than I consider to be a proper standard." (Record, Vol. 780, page 15238)

It may be mentioned that Canadian National Railways have performed the maintenance necessary for the traffic level in 1947, and also were able to draw upon the deferred maintenance reserve to pick up some of the maintenance postponed from other years.

As to maintenance of equipment, the same arguments were advanced by the respondents as to the level of this item of expense for the year 1947. The estimated total for the Canadian Pacific is \$41,727,000, or 4.27 per cent above 1946. The Canadian National, on the other hand, estimates an amount of \$71,822,000, or 11.26 per cent above 1946. It should be mentioned that the amount of \$71,822,000 is after crediting maintenance of equipment with \$7,500,000 taken from the deferred maintenance reserve. The Canadian Pacific, however, as previously mentioned, has not as yet drawn upon the deferred maintenance reserve.

I set out hereunder a table showing the total amount spent by the Canadian National Railways and the Canadian Pacific Railway Company for repairs alone for the years 1939 to 1946 inclusive:

Equipment Repairs		
	Canadian National	Canadian Pacific
	\$	\$
1939	27,158,000	19,176,000
1940	29,149,000	21,077,000
1941	33,123,000	26,118,000
1942	37,243,000	29,049,000
1943	40,289,000	32,617,000
1944	46,543,000	38,510,000
1945	46,189,000	39,624,000
1946	49,499,000	39,339,000

"It will be noted that if the credit from deferred maintenance reserves of \$6,000,000 in 1944 had not been used by the Canadian National, its level of equipment repairs would have been \$52,543,000, or approximately double the 1939 level whereas the Canadian Pacific without any credit from deferred maintenance reserve reached the same relative 100 per cent increase in 1946 over the year 1939."

Following this discussion of the question of maintenance charges the Judgment turns to the question of depreciation and at the conclusion of the depreciation discussion it presents an "Estimate of Railway Operating Income." In that calculation the maintenance expense estimates as presented by the C.P.R. were accepted exactly as presented. The only adjustment which in any way related to this question was the disallowance of an amount which was charged by the C.P.R., to the maintenance accounts and credited to deferred maintenance reserve in the closing months of 1947. In regard to the amounts charged as expenditures for physical maintenance, the Board accepted railway figures with no indication of any study beyond that outlined in the above quotations.

In the view of the Manitoba Government that is not satisfactory. On an issue of such vital importance the Board should not reject a possible remedy because both railways have objected to the Board that no index of cost of materials and wages is available for each of the years between 1930 and 1947. The basic data is in the records of the companies and we are informed that it would be a relatively simple statistical problem to prepare such indexes if that data were available. In fact in the 1948 Case both railways were able to construct and present such indexes for 1946, 1947 and 1948. Obviously the Board should secure whatever data it considers necessary to a decision on any point and particularly on a point of this magnitude.

Suggested Studies by Commission on Maintenance Practices

Our major criticism on this question of maintenance expenditures is more fundamental however. It is the view of the Manitoba Government that our Commission should undertake studies to deal with both the fact and the policy-making aspect of this matter.

It must seem that these studies should be approached from the viewpoint of an attempt to discover what maintenance expenditures are desirable and necessary in the interests of Canada as a whole and should not be confined to an isolation and view of what the railways have done in the past. In following out the practice of providing large sums for maintenance in years of good revenue and reducing maintenance materially in years when revenue is low or is not even a study of fluctuations in maintenance costs from one year to the next or from year to year over a period is likely to reflect the fact that railway management in the exercise of its proper managerial function causes maintenance expenditures to be related quite closely to fluctuations in railway revenue and therefore to fluctuations in railway traffic. It is therefore our view that attention should be directed to the expenditures over a number of years with a view to deciding whether the standard of maintenance in effect during that period is such that it offers a satisfactory railway service to the people of Canada. Once such a study has been made attention should be directed to the preparation of methods for estimating the nature and amount of any additional maintenance which may be necessary because of changes in the volume or character of railway traffic with a view to devising as an effort to improve the standard of railway service available in Canada.

Such a study would obviously not be limited to overall totals of the type which formed the basis for much of the discussion in the rate case nor would it be directed to define cost expenditures only. Attention would have to be directed to specific aspects of maintenance and to both engineering and cost experience in those specific items. In other words the study would require the combined efforts of persons well qualified in the long and experience in the engineering of railway construction and maintenance and of persons equally qualified in accounting and business matters. Our technical staff has not succeeded in devising a completely satisfactory basis for such a study but it seems clear that in addition to the type of analysis presented above the factual study would require a considerable amount

of engineering data and physical data. Consideration would have to be given to such things as engineering appraisals of the condition of the road, records of number of ties laid, records of number of pounds of new and re-lay rail placed, etc. In addition, a study of major rebuilding projects would be involved for the purpose of determining the proportion of their cost which should be charged to current maintenance and the proportion which should be capitalized. The experience of other railway companies' operations in somewhat similar circumstances, would have to be studied as well. The policy study would involve a consideration of the results of the factual study in the light of factors of the type which have been discussed in the section headed "The Standard of Transportation Service"

CHAPTER VII

Financial Position of the Company

We have already stated, at some length, our view that the people of Canada must, either through rates or some other means, pay the cost of providing Canada with railway service. It follows therefore that once the Board of Transport Commissioners has reached its decision on the various operating cost items, the next step is to calculate the total prospective revenue which it foresees for the railway company and to discover whether there will be sufficient revenue to cover operating costs and leave some net revenue available for the use of the corporation.

Estimating Revenue

Our view with respect to the preparation of estimates of revenue can be stated very simply. It is that the Board should prepare that estimate from the best data which is available to it from the railways and from other sources. One of the important elements in the preparation of such a revenue estimate is the forming of judgments as to the probable volume of traffic which will be available to the railways from the various industries. It therefore seems to us that in preparing revenue estimates it will be found that many non-railway sources such as trade associations, the Dominion Bureau of Statistics, the Department of Trade and Commerce, certain crop forecasting organizations, etc., will provide information which is more pertinent than that from railway sources. In this connection we need merely point out that in the 30% Case C P R witnesses estimated that 1947 railway operating revenues would be \$7 million less than in 1946. The figure estimated for 1947 was \$285.4 million.⁽¹⁾ The actual result however was not a decrease of \$7 million, rather it was an increase of over \$26 million to a 1947 operating revenue of \$318.6 million.⁽²⁾ In other words C P R witnesses underestimated C P R revenue by \$33.2 million or by more than 11.6%. On the other hand the provincial estimate of \$317 million⁽³⁾ was within one-half of one per cent of the actual figure.

Net Revenue

Any decision as to the amount of net revenue to be made available to the Company in excess of current operating expenses and any related question of the return to the owners of the company, involve

(1) 30% Case—Exhibit 11.

(2) 1947 Annual Report—page 42.

(3) Transcript—page 10922.

considerations of extreme complexity. In our view these considerations are so closely related to the conditions which exist at the time when the decisions are being taken, that they should be assessed anew each time the Board reviews the level of freight rates. At each such review its decision should be based on the best interests both of the people of Canada and of the railways at that time. For that purpose it would be necessary to take a great variety of factors into account, but we feel very strongly that no figure or mathematical formula should be established and rigidly applied in these matters. For this reason we do not deal with this subject in any further detail in this brief.

Financing Improvements

There is, however, one important subject which is related to the above question, upon which we feel that discussions at the present time would be fruitful. This is the question of the arrangements which are to be made for financing future improvements in the Canadian railway system.

The problem with which this section is concerned is that of the provision of funds to be used in paying for improvements to the railway system. It is not the intention to discuss here the methods by which the legitimacy or advisability of such expenditures should be tested. That matter has been dealt with in the section on the adequacy of the transportation service. The assumption here is simply that an expenditure for the purpose of improving the physical plant of the C.P.R. is desirable and acceptable to all concerned and that the problem is one of deciding what method shall be used to supply the necessary funds. In view of the fact that such expenditures are, in the final analysis, borne by the freight payers of the country, they have a natural interest in ensuring that the burden be as small as possible.

Methods Available to Corporations Generally

At least three methods of providing for the financing of improvements are available to the railway through channels which are open to corporations generally:

- (a) the sale of securities on the capital market;
- (b) the pledging of specific assets as security for the money necessary to finance their acquisition;
- (c) the application of accumulated surplus;

The adoption of renewal accounting would achieve a similar result because while renewal accounting does not provide funds for new capital expenditure, nevertheless, in times of rising capital costs it does have the effect of reducing the capital monies required. A simple illustration will suffice to explain what we mean.

Suppose that the railway needed two new stations, one to replace an old station due for retirement and one for expansion. Also suppose that the old station had cost \$1 million and that the new stations which are comparable physically, will cost \$2 million each. Under renewal accounting the new cost of the replacement for the old station (\$2 million) is chargeable to current operations (i.e. the user) immediately and the remaining \$2 million for the new station must be financed by the corporation. Under depreciation accounting, however, the corporation must bear not only the cost of the new station but the additional cost of the replacement for the old station, or \$3 million.

As a result a change of certain road items from depreciation accounting to renewal accounting as suggested in Chapter IV, would reduce accordingly the amount of money needed by the C. P. R. for capital purposes and would consequently assist in the financing of its improvements.

Once again the fundamental criterion to be applied in deciding as to which course should be adopted must be that of securing the objective in mind with the least possible cost to the users of the service, and the least possible cost and inconvenience to the company. It is therefore our view that all four of the above methods and any other methods which may be possible, should be used to the extent that they can contribute to that objective.

The traditional method of raising capital and the method which has been used most extensively by the C. P. R. is that of the sale of securities on the capital market. This method has the great advantage that it clearly distinguishes the amounts secured in that way from the amounts secured from the users of the service. This is of great assistance to the Board in its efforts to establish a line of demarcation between money contributed by the owners of the corporation and money contributed by the users of the service. This method has the further advantage that it does not call upon the users of the service to meet any costs arising out of the financing until after the equipment is in use.

But there are certain undesirable features involved in the sale of securities in the capital market, especially if viewed with a concern for the freight payers' interests. These features are partly the result of developments in the transportation industry and partly the result of the nature of the capital market itself. The investing public no longer considers the field of railway bonds and stocks as attractive an investment opportunity as it once did. Rightly or wrongly, it appears that for reasons such as the encroachment on the position of the railways by other carriers, the slowing down of the extensive development of this continent, the frequent bankruptcies of railway companies in the U.S., and perhaps for other reasons as well, the public's appraisal of the future of railways is not too bright. The result is that a greater inducement is necessary to attract funds to the railway field.

In addition, the unsteady and sometimes erratic movements of security prices over the last few decades has had the effect of making it very dangerous to depend upon the ability of the railway company to secure a favorable market for its securities at the particular time when it may require funds for capital purposes. It is for this reason that we suggest that although this form of financing should be used wherever it is practicable nevertheless some arrangement should be provided whereby the company and the users of the service will be protected against the high cost which would be incurred if relatively large sums should have to be raised at a time when the capital market is particularly unfavourable (i.e. high interest rates).

The second possible method of meeting the cost of improvements is that of issuing securities backed by the pledging of a specific asset. This method has been used quite extensively by the C. P. R. in the form of equipment trust certificates under which a given piece of rolling stock is pledged to the creditor at the time it is constructed. The certificates are then redeemed on a serial basis. This method is, in our view, quite sound and should be used to the greatest extent possible particularly in respect to assets which offer good security when pledged in that way namely in the case of moveable assets of the rolling stock type.

It is obvious of course that this type of financing could not be used for all equipment and that it must merely form part of an overall plan which also involves long term bonds and other sources of capital. Nevertheless it is our view that equipment trust certificates should be used wherever they can be depended upon to provide funds at carrying charges which are lower than would otherwise be required. In this connection it should be pointed out that in the 1948 Annual Report of the C. P. R. there are seven equipment trust series listed amounting in total to about \$18 million and that the interest rates vary from 3% to as low as 1 1/4%.

The third possible method of providing for the financing of future improvements is that of using accumulated surplus for that purpose. This method found favour with the Board of Transport Commissioners in its 21st Judgment for in discussing the need for something over and above fixed charges and dividends the Judgment has this to say:

"I think that a railway is entitled to a reasonable surplus over and above fixed charges and dividends. A railway company should have something in addition to wages and so on, to provide for contingencies and to help equalize the results of poor years with good years. And to have something if necessary when we put back into the railway operations under taking for the improvement of the service which it is required to 'provide'."

The Board then went on to point out that it considered the use of surplus money in this way, to be apart from "major capital requirements."

There are two basic objections to the use of accumulated surplus for the financing of future railway improvements. In the first place income transferred to surplus account has been subject to income

tax. Consequently, if the railways are to have a certain sum made available to them in that way it is obvious the amount which the user must pay will have to cover that sum plus the amount of those taxes. That additional sum for income tax is, at present tax rates, somewhat more than 50% of the amount made available to the railways. The result is that if surplus is selected as the method of financing improvements, it is a very expensive method from the point of view of the users of railway service.

The second objection to such a use of surplus is this. Not only does it mean that the users of the service are called upon to provide, in advance, the full amount of the capital requirements plus 50% more to be turned over to the Dominion Government in income tax, but it means also that the money so contributed to the railway is taken into the general treasury of the corporation and is likely to be treated in the future as money belonging to the owners of the company. In other words, the use of surplus in this way makes it very difficult to maintain the important segregation between money contributed by the owners and money contributed by the users.

For these reasons, although the Government of Manitoba does not disagree with the principle which lies behind the quotation above, it does offer the opinion that the amount to be provided in that way should be very small. Certainly the allowance by the Board of Transport Commissioners of a surplus of over \$15 million plus an additional \$7.5 million for income tax on that surplus is very much in excess of the amount which should have been allowed.

The three methods of financing which have been outlined above, are those which are available to any private or public corporation. We have expressed our views on each and our general suggestion is that each should be used to the greatest extent possible consistent with the interests of Canada in avoiding the payment of capital charges so high as to suggest that some more radical approach to the problem should be tried.

Special Methods Which Might be Considered

It may be suggested, however, that such great amounts of capital will be required by the Canadian railways in the next few years that all of the above methods, even if used to the full, would still prove to be inadequate and that therefore, the level of Canadian freight rates should be raised drastically to make possible the sale of new capital securities in large volume on the capital markets of Canada and the United States. If such a suggestion is made, it is the view of the Manitoba Government that the proposed improvement program should be subject to careful scrutiny by the Board of Transport Commissioners. The program may be highly desirable from the point of view of the railway company but it may be so expensive that Canada would be better served by a less elaborate and less expensive system which could be supported by a lower level of freight charges.

If on the other hand the Board of Transport Commissioners should decide that the improvement program is warranted in the long run interests of the country as a whole and if at the same time it should be convinced that the methods of finance which have been outlined above will not be sufficient to carry out the program, then it is the view of the Board of Government that serious consideration should be given to the possibility of developing other methods of raising capital. It might be found that from the viewpoint of Canada as a whole the railways should be allowed or directed to meet their capital needs by methods which are not available to other corporations. It is our sole view that your Commission should consider this matter carefully and make recommendations upon it. We offer below a few suggestions which might be useful in that regard. It is not our intention that these should be viewed upon as the only possibilities but they do seem to us to be suggestions which might be more desirable from the national point of view if the alternative is a freight rate increase of such magnitude that it would be unportable by the people of Canada.

Our first suggestion in this regard is that if the Board finds that an improved standard of service is desirable and that it cannot be financed in one of the above ways then a fund for financing improvements might be created by calling upon the carriers to pay rates slightly higher than would be required to support the existing standard of service. The additional revenue collected in that way might then be set aside in an improvement fund. The result would be to make available to the railways a fund which could be used for capital purposes without the necessity of going outside the company and attempting to raise the money on the capital market. The Canadian railways will always have a substantial number of relatively small improvement projects to be undertaken year by year and it is our view that the provision of a fund for this purpose would not be inappropriate.

We should point out at once that it is our view that if such a fund is to be provided the Board of Transport Commissioners should take whatever steps are necessary to satisfy itself that the improvements which are undertaken are not excessive and that the fund is actually used for improvement purposes. Furthermore the records should be kept in such a way that it is always made clear that the money provided in this way is credited to the users of the service and not to the owners so that in future rate cases there will be no confusion on that point. We have made no attempt to analyze all the implications of this suggestion but it is possible that by some arrangement such as this the railways might be provided with a dependable source of capital while at the same time the annual charges against freight rates might be kept to a level substantially lower than would be necessary if all the necessary capital had to be raised on the capital market.

Our second suggestion is that at some time in the future, some type of direct capital assistance by the Dominion Government might

have to be considered. Such assistance might take the form of Government guarantee of C.P.R. bonds or in more drastic circumstances, might take the form of direct Government loans to the C.P.R. We are not so pessimistic as to believe that the need for either of these will arise in the immediate future, but we do feel that your Commission should so frame its recommendations that, if at some time in the future, an emergency of this sort should arise, the possibility of direct Government assistance would not be completely precluded.

CHAPTER VIII

Rates as Related to Distance

Having thus concluded our remarks upon the problem of determining the amount of money to be made available to the railways we turn to that of the nature of the rate structure which is to be used to collect that money.

The structure of Canadian freight rates as was pointed out in the brief presented by Premier Campbell, is one of the major factors in the Canadian economy and one of the basic determinants of the nature and extent of the economic development in the different regions of Canada. For that reason freight rate matters have always been issues which have aroused strong public reactions particularly in areas like Manitoba which are almost completely dependent upon rail transport for outbound shipments of products and for inbound shipments of supplies.

One of the first issues which must be faced in any discussion of freight rate structures is that of the relationship between the rates charged for different distances. At the one extreme are those who propose that the rate per mile should be constant—that the rate for 600 miles should, for example, be 30 times the rate for 20 miles and twice the rate for 300 miles. At the other extreme are those who propose that the rate charged should be the same regardless of distance *i.e.*, that the rate should be the same whether the shipment moves 600 miles, or 20 miles, or 300 miles. In practice, however, all the present Canadian rate structures are a compromise between these two extremes: the total charge increases with increasing distance but not in proportion to distance. For example, a haul which is 50% longer might take a rate which is 30% greater. The only exceptions to this principle occur in cases where competition exists on the long hauls but not on the shorter hauls. Under such conditions no true rate structure exists, rather the rates are a series of unrelated amounts determined on the basis of expediency in relation to the importance of the competition.

Rates of Taper as Distance Increases

Although it is true that each of the present Canadian rate structures is a compromise between the two extremes mentioned, nevertheless there is no uniformity as to the nature of the compromise. In each case the relationship between the rate increase and the distance increase—the rate of taper as distance increases—is slightly different.

A few examples chosen from the Eastern and Prairie standard mileage class rate scales will illustrate the present situation.

SUBMISSIONS AT OTTAWA HEARING

		\$ per cwt.
First Class rate for 100 miles	East	.79
	Prairie	.83
First Class rate for 200 miles	East	1.00
	Prairie	1.23
Distance increase 100% ; rate increase	East	27%
	Prairie	48%
		\$ per cwt.
Fifth Class rate for 400 miles	East	.76
	Prairie	.87
Fifth Class rate for 600 miles	East	.99
	Prairie	1.13
Distance increase 50% : rate increase	East	30%
	Prairie	30%
		\$ per cwt.
Third Class rate for 600 miles	East	1.48
	Prairie	1.67
Third Class rate for 840 miles	East	2.09
	Prairie	2.11
Distance increase 40% : rate increase	East	41%
	Prairie	26%

The general relationship between mileage and distance is set out in chart form in exhibit 324 of the 30% Case. These charts are based on the class rates as they existed before the 21% increase, but the shape and relationship of the curves would not be changed by that uniform increase.

In order to illustrate certain of the factors to be considered in a decision as to what would be an appropriate rate of taper it is necessary to direct attention to the nature of the costs which the railways incur in moving a shipment of goods and to the manner in which the length of the haul influences the willingness and ability of shippers to pay the rates charged.

The cost of moving a shipment of goods consists in essence of the sum of two types of costs.

- (a) those costs which are constant regardless of the length of haul, such as the terminal costs at the point of origin and destination and much of the necessary office and paper work of billing, accounting, recording, etc.,
- (b) those costs which increase as the length of haul increases, such as road and rolling stock maintenance, wages of train crews, fuel, etc.

We are not aware of any studies which have been made in Canada to determine the relative size of these two items or to determine whether item (b) should be treated as one which increases at a uniform rate closely related to mileage or as one which increases at a percentage rate which is less than the percentage increase in the mileage.

It is obvious from the nature of the situation that the total will increase as the length of haul increases but, because originating and

terminating costs are spread over a greater mileage, the total cost per mile will decline as the distance increases.

In the case of very long haul traffic there seems to be reason to think that the line haul costs themselves are somewhat lower per mile. If this is true the result would be another factor making for a reduction in the rate per mile as the length of haul increases. In Canadian shipments of more than 500 miles almost invariably involve shipments through areas of rural and light settlement in which relatively little traffic originates or terminates. The result is that a very large proportion of the very long haul traffic moves in full train loads over long distances without the need for sorting and switching in division points and terminals. On the other hand in the case of short haul traffic the amount of such sorting and switching is relatively much more important. Another factor in this regard is that with long haul traffic the pressure for speed is much less important and consequently the railways are better able to arrange their schedules in such a way as to provide full trainloads reasonably well spaced throughout the day. We of course have no means of assessing the importance of these or other factors but I would appear reasonable to suggest that they would have a significant effect on total costs.

If the cost situation is such that the railways could afford to cut their long haul rates but instead they decide to apply a rate of taper which overstates their savings in the very long haul traffic they cannot ignore the effect this will have upon shippers and potential shippers. For a shipper located within a few miles of his market the freight charge is a relatively small fraction of total cost. For a shipper located many hundreds of miles from his market the freight charge may well be one of the most important cost factors. Consequently what might appear as a relatively small difference in the rate per mile as a result of tapering the development of industry in a particular area and might have the effect of preventing the growth of a type of traffic which would be very remunerative to the railways. For this reason it seems to me that the railways should be particularly anxious to see that their long haul rates are as low as can be justified in the light of the cost elements involved and that they fully reflect the savings in operating costs which are inherent in long haul traffic.

Quite aside from the self interest of the railways there are reasons of national policy which in our view require that maximum efforts should be made to keep long haul rates to the lowest possible level. As was pointed out in the paper presented to Premier Campbell Canadian needs her people and her goods over distances which are probably greater than those of any comparable country in the world. If the rates charged for these long distance movements are high the result will inevitably be a tendency to increase regional divisions and to decrease the interchanges of goods between the different regions. Because of this fact I have always been a major proponent of Canadian transportation policy that the cost of transportation between regions should be held to a minimum. It is the view of the Manitoba Government that at the present stage of Canadian develop-

ment it is more essential than ever that the fullest possible exchange of goods between the different regions should be encouraged.

We would, therefore, suggest that your Commission should very carefully examine the rates of taper which are now embodied in the different Canadian rate structures. If that examination indicates that the costs of long haul traffic are such that the railways could implement a rate scale based upon a rate of taper which increases rates more gradually as distance increases, then it is our view that such a scale should be introduced both in the interests of the railways themselves and in the interests of a closer integration of the economies of the various regions of Canada.

At this point it seems opportune to present a table which shows more specifically the manner in which this problem is handled in the present rate structure. The following table has been prepared from the tariffs which establish the present standard mileage class rates. It shows the amount which is charged for an additional 100 miles beyond the distance that is shown. For example, the figure opposite the mileage 50 is the increase in the charge for 150 miles over the charge for 50 miles. The figure opposite the mileage 400 is the increase in the charge for 500 miles over the charge for 400 miles. The table presents this information with respect to the average of all ten classes in the Prairie Scale and with respect to the average of all ten classes in the Eastern Scale. As a useful and interesting comparison it presents the same information for the basic class rate prescribed for application in all territory covered by the 1945 decision of the Interstate Commerce Commission following a 6 year investigation of class rates in the United States. (1)

*Amount Charged for an Additional Haul of
100 Miles Beyond the Mileage Shown*

Mileage	Prairie	Eastern	I.C.C. Scale
	Cents per Cwt.	Cents per Cwt.	Cents per Cwt.
50	24.9	20.4	20
100	19.4	18.6	20
150	17.8	15.4	20
200	17.0	18.8	20
250	16.6	16.0	..
300	16.1	11.7	16
350	16.7	12.2	..
400	14.8	12.4	15
450	14.8	10.0	..
500	14.7	13.9	15
550	14.2	18.1	..
600	14.0	19.0	16
650	13.6	17.3	..
700	12.6	18.2	15
750	12.2	19.9	..
800	12.6	19.7	14
850	12.1	17.7	..
900	12.3	16.9	14

(1) Doekel 1939-40 Class Rate Investigation, 1939-1945 I.C.C., page 796.

RATES AS RELATED TO DISTANCE

One point is abundantly clear from this table. The taper which is embodied in the present Eastern Class Rate Scale is completely unsatisfactory. It actually increases more rapidly in the long hauls than in the short hauls. Up to and including 500 miles the average charge for an additional 100 miles is 14 2c, but above 500 miles the charge for an additional 100 miles averages 18 3c. The Prairie scale on the other hand follows the general pattern which one would anticipate although in this table there are two instances where the additional amount for an extra 100 miles is greater on longer hauls. It, therefore, appears to us that the taper which is embodied in the present western scale is preferable to that in the eastern scale. As to the level of the two scales, our comments on that subject are included in the chapter entitled "Characteristics of the Overall Rate Structure."

This does not mean, however, that we suggest that the taper in the western scale should be adopted generally. We do not have access to the information or the expert knowledge which would be required to reach a decision as to the rate of taper which is proper at the various distances to which a class rate scale must apply. For that reason we would not wish the above table to be interpreted as a suggestion that we advocate the adoption of any one of the three scales shown. In general terms, however, our view is that the rate scale should be such that at each distance it covers the costs involved and that particular care should be taken to see that it does not provide unnecessarily high revenues to the railway from the long haul traffic which forms the backbone of Canadian railway traffic and of the Canadian economy as a whole. We therefore suggest that your Commission should recommend a thorough study of this whole question of the relationship between rates and distance and that in that study particular attention should be paid to (a) the importance of those elements of cost which must be paid regardless of the distance the shipment moves and to (b) the extent to which other costs show evidence that the line haul costs per mile are lower on long haul traffic than on short haul traffic.

Horizontal Percentage Increases

In their application in October, 1944, the railways asked for authority to make a uniform increase of 20% in all freight rates which were under the jurisdiction of the Board of Transport Commissioners with the single exception of coal. In their second application in July, 1948, they again asked for authority to make a uniform increase, although the figure proposed was 20%. In its Decision, in March, 1948, the Board authorized a uniform increase of 21% applicable throughout Canada, the decision on the 20% Case has not yet been delivered.

Manitoba has always opposed such proposals and has urged that flat percentage increases of this sort were most unfair to the people of Western Canada for two reasons:

- (1) Because a horizontal increase of this type would automatically aggravate regional discriminations which already exist. This is true for the simple reason that a percentage increase on a high figure is always greater than the same percentage increase on a lower figure. For example, if the rate in one area is \$1.00 and it is raised by 21% the increase is 21c, while if the corresponding rate in another area is \$1.50, a 21% increase amounts to 31.5c.
- (2) Because even in the absence of regional differentials of this sort a horizontal increase has the effect of charging against long haul traffic a very much greater increase than that which is charged against short haul traffic.

The truth of the first proposition is self-evident and only its importance needs to be assessed. We of Western Canada have long held the view that regional discriminations should be eliminated and in this present submission we state our views on that matter at length in the chapter entitled "Regional Considerations." As pointed out in that chapter there has in the last 2 years been an important reduction in the most serious discrimination against the Prairie region, but that reduction does not affect the essential validity of the proposition that a uniform percentage increase aggravates all existing regional discriminations. For that reason we are still of the view that it is a fundamentally sound policy for the Board to apply uniform percentage increases without first making a real effort to eliminate discriminations.

In this connection we would point out that in every major rate increase since 1914 to 1920 the Board authorized a larger increase in the East than in the West. The general purpose was to reduce the regional rate differential against the West. In the East rate base 1914, an increase of 5% was authorized in the East but none was authorized in the West. In the so-called 10% case (1917) Western rates were raised 10% only whereas the general bulk of Eastern rates were raised 15%. In the 25% case (1918) the Government by Order in Council directed the Board to put into effect an increase of 25% in all rates in Eastern Canada whereas in Western Canada the increase was limited to 2% above the level previous to the 10% case. In the 40% case (1920) the Board granted a 40% increase in Eastern rates and a 3% increase in Western rates. In the Rate Reduction cases in 1921 the reductions were arranged in such a way as to preserve the equalizing effects of the rate increase cases which have not been emphasized.

In other words every general freight rate adjustment which was authorized from 1914 to 1920 was used as an opportunity to further reduce the discriminatory differential against the Prairie Provinces. We are convinced that that policy was fundamentally sound, although we are not satisfied that it was carried to the extent which was required by the circumstances. It is our view that the differential which still remained even after these various decisions was still much beyond anything that could be justified. This point will be developed

more fully in the chapter dealing with "Regional Considerations" In 1948, however, the Board of Transport Commissioners saw fit to reverse this policy of eliminating regional discrimination, and in the 21st Judgment it authorized a uniform 21% increase in all parts of Canada. The higher rates in Western Canada were increased by the same percentage as the lower rates in Eastern Canada. It is, therefore, our view that your Commission should recommend that, in the future, uniform percentage increases should not be applied in such a way as to aggravate regional rate differentials

Our second reason for opposing the application of uniform percentage increases is that they have the effect of imposing a much greater increase on the long haul traffic than on the short haul traffic. We have already indicated in the section dealing with rates of taper that it is our view that in the national interest long haul rates should be kept as low as possible in order to facilitate the greatest possible interchange of goods between the different regions of Canada. In that same section we pointed out certain characteristics of the underlying cost factors which tend to produce for long haul traffic a cost per mile which is lower than the cost per mile for short haul traffic.

In this present section we wish to deal with the changes which have occurred in these cost factors in the years since the rates of taper in the present rate structure were established. As was pointed out in the earlier discussion, the cost of moving a given shipment can be thought of as the sum of two components

- (a) the cost of originating and terminating the shipment together with the cost of the necessary office and paper work involved,
- (b) the cost of actually moving the traffic over the railway lines.

Both types of costs have increased materially since the basic patterns of the present rate structure were laid down over half a century ago, but some types of costs have increased more rapidly than others and in some cases there have been important offsetting factors. It is our submission that these cost changes should be analyzed to discover whether there have been important differences in the magnitude of their effect upon the two components mentioned. We obviously do not have the necessary data to make such an analysis, but there does seem to be evidence that terminal costs ((a) above) have probably increased more sharply than line haul costs ((b) above).

During the 50 years or more since the basic characteristics of the present rate structure were laid out, increased efficiency of operation in the actual hauling of freight traffic has been substantial. This increased efficiency must have offset a substantial part of the cost increases from other causes in the line haul component. Furthermore an important element in line haul costs is the burden of the charges payable on the capital invested in road property. The carrying charges on bonds are substantially lower than they were

50 years ago and the same is true of capital charges generally. Consequently this factor too is an offsetting influence to the increases in line haul costs from other sources.

On the other hand there do not seem to be corresponding offsetting factors in terminal costs. Consequently it seems likely that terminal costs have felt the full weight of increased operating expenses while line haul costs have gone up less sharply. It therefore follows that in any rate increases to compensate for higher current operating costs the terminal cost component should be raised by a percentage which is greater than that applied to line haul costs. Since the terminal cost in short haul traffic is a larger proportion of the total it follows that the percentage increase on short haul traffic should be greater than on long haul traffic.

This situation appears to have been recognized by the Interstate Commerce Commission for in each of its recent decisions authorizing freight rate increases in the United States it has attached a long schedule setting out the maximum increase per ton which is to apply to each commodity named. In other words in the recent I.C.C. decisions the practice has been to allow a certain percentage increase on short haul traffic but to specify a constant number of cents per ton on longer hauls so that the percentage increase on the long hauls is smaller.

In dealing with this question in its Judgment of March 30, 1948, the Board of Transport Commissioners said:

"There were submissions that if increased rates were authorized there would be varying percentages of increases. The lowest percentage of increase being made on long hauls and the highest percentage of increase on short hauls. It was also suggested that maximum increases should be provided in order to avoid a very large increase upon relatively high rates from distant points of production. It appears, however, that difficulties with respect to the adequacy of a variety of standards whether as applied, firstly, the lack of reliable traffic statistics from which to determine the additional revenue which would accrue from tax or maximum increases on particular commodities. Further there is not on the record anything to enable any determination concerning the competitive and pricing of the carriers and even the individual rates which could bear the burden of an increase."

It is our submission that the lack of reliable traffic statistics is much too flimsy an excuse for failure to take action upon a matter of such importance as this. The Board of Transport Commissioners has been in existence for many years and if proper statistics are not available they should have been made available or the Board could have put its staff to work to prepare satisfactory estimates.

It is, therefore, the submission of the Manitoba Government that your Commission should recommend against the use of uniform percentage increases in rate increase decisions and should support instead some system whereby the percentage increase applicable on long haul traffic would be lower than that on short haul traffic.

CHAPTER IX

Characteristics of the Overall Rate Structure

The concern of this chapter is to express the views of the Manitoba Government on the question of the general characteristics of the rate structure which would be most suited to the needs of this country. There is little doubt but that the present rate structure and the principles under which it has grown are no longer completely satisfactory. If indeed they ever have been. The grievances which have been aired with respect to individual rates, groups of rates and the rate structure as a whole provide ample proof that the overall result of allowing the railways to set rates on the basis of charging what the traffic will bear within the limits of the ceiling established by the Standard Class Tariffs and circumscribed by the Board's attitude on the question of "unjust discrimination" is far from satisfactory. The public is dissatisfied with the result and one might go further and suggest that the result may not be in the best interests of the railways either. The purpose here is to suggest an alternative approach which will produce more satisfactory results.

No one would be naive enough to assert that a rate structure can be devised which will be satisfactory to all interested parties, for freight rates are too complex and play too strategic a part in the economic life of the country for that condition to prevail. Although it is certain that no structure will be completely satisfactory to every section of the Canadian public nevertheless there is much to be gained by an attempt to mould a rate structure following principles which lend themselves to a minimum of legitimate criticism, even though added administrative difficulties for the railways and for the regulatory tribunal may be involved.

It was with considerations such as these in mind, that the Manitoba Government included, as item 3 in its brief of points, the following:

"3. It is our opinion that it should be a fundamental principle of the Canadian railway freight rate structure that freight rates charged for the same traffic over the same distance should be equal except where costs, competition, the needs of national development or other circumstances require some deviation from that principle."

For the sake of emphasis we would draw attention to the two concepts which are involved here. First and foremost "it is our submission that it should be a fundamental principle of the Canadian railway freight rate structure that freight rates charged for the same traffic over the same distance should be equal." Secondly this is, of course, impossible of complete achievement in practice and consequently we proceed immediately to indicate that we are prepared

to recognize exceptions "where costs, competition, the needs of national development or other circumstances require some deviation" from the principle of equality.

The fundamental nature of the first proposition arises from the idea that all Canadians wherever they may be located are entitled to equal treatment unless there is some very good reason for a difference in treatment. In other words those who support a rate structure which is to face rails for unequal treatment of certain groups or certain areas must meet a heavy burden of proving the necessity and desirability of that unequal treatment. It is not good enough simply to take the position that the rate structure has always had elements of discrimination and that those discriminations should be continued until someone proves that they should be removed. Our submission is that each discrimination feature should be examined in the light of present circumstances and that equality should be established except where deviations can be justified now. We would go further and suggest that your Commission should recommend that the Board should of its investigative machinery conduct review of these discriminatory elements so that each will be eliminated as soon as there is a material change in the circumstances which originally made it necessary. It is our view that the present rate structure includes many elements of discrimination which are there simply because in such cases has been made in the past.

There are too many differences in rates under the present rate structure which are not justified by differences in the circumstances under which the traffic is carried and this fact naturally gives rise to bad feelings and charges of discrimination. A rate structure which allows deviations from uniformity in a more careful basis one which requires that any proposed deviation should meet certain closely established criteria and thus preserves a semblance of equal treatment in the case wherever he may be situated in the net of rate structure which the Manitoba Government recommends. Moreover the issue of establishing the need and justification for deviations from uniformity should be placed squarely on the party requesting them and should be subject to approval by the regulatory tribunal. The practice followed in the past whereby the railways company could grant lower rates at will subject only to proof of unequal discrimination by some other interested party has produced a rate structure which is hardly reconcilable with considerations of the public interest.

Of particular importance in the growth of the present unsatisfactory rate structure is the large accumulation of substandard "competitive" rates in the Provinces of Ontario and Quebec. These rates were the subject of considerable discussion in the rate cases of the past few years but the problem which they raise is still unsettled. Our criticism is directed partly to the level of these rates as such but more fundamentally we are concerned with the fact that higher rates have been charged in the West in an effort to recoup the railways for the revenue lost in areas where competitive rates are un-
minimum

Criteria for Departure from Equality

We turn now to a discussion of the criteria which might be applied in deciding whether deviation from equality is required. The standard defence of competitive rates has always been that they are necessary to hold the traffic. The argument is that other forms of transportation are charging rates lower than the "normal" freight rates and that rail freight rates must be reduced to retain the traffic. It is argued that this is fully justified so long as the rates charged are high enough that the revenue secured from the traffic concerned exceeds the expenses which would be saved if the traffic were abandoned. It was on this particular question that Mr G. A. Walker, Chairman of the Board of Directors of the C.P.R., stated before this Commission that there were two criteria for determining the lowest competitive rate which could be justified."

1. The rate must never be less than the out-of-pocket costs plus a margin above that.
2. The rate should not be lower than is necessary to meet competition.

It is well to consider this defence of competitive rates in the light of present railway operating costs and the changes which have occurred in operating costs in the past few years. We would like to direct attention to two aspects of this matter.

1. The fact that the railways now express the opinion that 80% or more of their operating expenses are variable with traffic, whereas, in earlier years the percentage quoted was very much lower than that.
2. The fact that operating expenses both for the railways and for their competitors have increased very greatly quite regardless of any cost changes which have resulted from changes in the volume of traffic.

During the 20% Case the C.P.R. argued strenuously that at the present level of costs and traffic, at least 80% of its operating costs vary directly in proportion to traffic.⁽¹⁾ They contended that if traffic were increased by, for example, 10%, the result would be an increase of approximately 8% in operating costs and that if traffic volume were to decline by 10%, operating expenses would decline approximately 8%. If one looks at this situation in relation to the argument presented in connection with competitive rates, the conclusion is that if the proposed competitive rate is less than 80% of the normal rate then the railway could, by withdrawing from the traffic, entirely eliminate a cost element which is larger than the additional revenue which it is expecting to draw from the traffic concerned. It is not our purpose to attempt to justify the figure of 80% or any other figure in this context. We merely wish to point

(1) Transcript—page 14.

(2) Transcript—pages 2387 to 2408 and pages 2621 to 2623.

out that under conditions in which operating costs vary extensively with changes in traffic volume there is very much less justification for competitive rates than there was under conditions in which operating costs varied only slightly with traffic volume. In this context, it is significant to note that Exhibits 772 and 773 of the 21st Case give a substantial number of examples in which competitive rates were then set at figures as low as 60% of the standard rate. In fact a few cases are quoted in which the competitive rate was less than 30% of the standard rate. It is also significant to note that in those two exhibits the largest discount on competitive rates and the largest number of competitive rates are found in Eastern Canada.

We would also like to direct attention to the effect upon the competitive rate situation which results from the fact that operating costs have increased quite markedly from any increase in traffic volume. In recent years there have been substantial increases in operating expenses, both for the railways and for competitive types of transport. One result of this is that there is less need for the low competitive rates to hold the traffic for the railways since the cost of providing the competing transportation service has also increased, and the rates charged for it have likewise been increased.

On the other hand from the point of view of the railways themselves these cost increases have completely upset any former calculations of the rate which would be high enough to return total pocket expenses of the railway. The total pocket expenses of the railways are primarily those which relate to wages of operating crews, the cost of fuel, the cost of rolling stock, etc., on which price increases have been large. On the other hand, the constant costs which must be met even if a somewhat smaller volume of traffic is carried, involve many items on which increases have been smaller or on which there have even been decreases on a per unit basis. It is of course true that increases have occurred in both categories and that in both categories there are items which have relatively small increases, but in general it seems clear that the largest increases have been in the out of pocket expense category. It follows therefore that when cost increases in rates may be justified on an average basis, the rate increase which should be applied on the competitive rates is a figure somewhat larger than that average.

It is not possible to reduce to precise figures the cumulative effect of these changes in operating conditions, but it is the view of the Manitoba Government that these points should be drawn to the attention of your Royal Commission and that in preparing your recommendations you should take them into account. It is our view that your recommendations in this regard should be that the Board of Transport Commissioners should require that a railway company which finds itself faced with increased operating costs should before it is granted a general increase in its rates make a careful review of all its low competitive rates to determine whether it would not be to its advantage to cancel some of its low competitive rates even though a loss in traffic might result. In other words, we feel that

the railways should be required to seriously consider the advisability of allowing the traffic to go to competing forms of transportation because of the fact that the saving in operating expenses to the railways may well be greater than the revenue which would be derived if they were to establish rates low enough to keep the traffic for themselves. It is our view, however, that if this matter were given careful study it would be found that competitive rates could be raised substantially above their present level in many cases without any substantial volume of traffic being lost, for the reason that the cost of transporting goods by other means have increased by at least an equal amount.

This analysis has been developed in terms of competitive rates but it is our view that it is applicable to all rates which are lower than the general level whether those rates are technically termed competitive or whether they fall into some other category such as agreed charges or commodity rates.

It is the belief of the Manitoba Government that a substantial number of competitive rates, agreed charges, and other special rates, are now in effect, which would not now be introduced if judged by the criteria which have just been discussed. To a large extent, these rates are the result, in some cases, of the fact that they were initiated without due regard to all the circumstances and, in other cases, of the fact that the original circumstances are now materially altered. Such rates are particularly numerous in Ontario and Quebec and they are one of the important reasons why the level of rates in Eastern Canada is on the average, lower than in Western Canada. Our views on this point are discussed at some length in the chapter headed "Regional Considerations."

The situation described above could not have developed if a closer check on all rates which deviate from the standard class rates had been maintained by the regulatory tribunal. By adopting the recommendations made in this chapter as to equality of rates and the conditions under which departures from equality would be allowed, some guarantee would be provided that that situation would not develop again.

Periodic Review of Rate Concessions

If these principles are to be applied by the Board of Transport Commissioners, some system is required whereby the Board can maintain a more careful review of these substandard rates. One suggestion to achieve this purpose is that no special rates should be allowed to go into effect without first being scrutinized and approved by the Board of Transport Commissioners. This suggestion was made by several witnesses at the various regional hearings in the West and almost invariably the response of Railway Council was to the effect that this would create such a complicated procedure as to seriously retard the normal processes by which rates are set. The

implication was that the administration of rate setting on that basis would be a task of such magnitude as to prevent the railways from being able to use special rates where warranted by special conditions with the speed necessary to get the traffic.

It must be admitted that anyone outside the actual railway field cannot be sufficiently familiar with all aspects of this question and with the details of the administrative practice involved to be able to offer a free opinion. At the same time it may be suggested that there is a temptation to over-emphasize the magnitude of these administrative problems. Once a procedure is established whereby certain specific tests are applied to each proposal for a new rate, it should be able to operate quite quickly and to apply such tests to a large number of proposals. The main aim that they themselves are applying tests of an essentially similar nature in these cases. If so they must have an administrative practice which can handle the number of cases which arise. It is our understanding that in practice such matters are handled in substantial measure by the Canadian Freight Association and several other persons who the Board of Transport Commissioners could not act as quickly as the Freight Association. If on the other hand the railways argue that the present arrangement between the railways and the Freight Association is not applying tests of this type then that is equivalent to an admission that no adequate criteria are being applied at present.

Railway Comptrols have found the number of tariff changes in recent years very useful in demonstrating the tremendous size of the administrative problem here. But it should be pointed out that the figures of the past few years are not representative of the period before that nor are they likely to be representative of any fairly normal period in the future. In the first place there have been in recent years a large number of general increases such as the domestic rates such as the 21% increase and the 1% increase in competitive rates and also in the international and related rates in which increases have been applied in such seasons when the United States rates have been increased. Since July 1 1946 there have been no less than 8 general increases in United States rates, each of which has had an impact on our international and related rates.

There are two points to which we would like to draw your attention in this regard. In the first place there is little likelihood that changes will occur as frequent year after year in the future. What is more probable is that over the next few years general freight rate changes will disappear, the numbers of new tariffs which will be filed year by year will be reduced greatly and with a greater measure of control over the granting of special rates a further reduction may be expected.

Secondly the present procedure is such that it tends to magnify the administrative problem. The procedure in these percentage increase cases has been that when an increase of for example 5% is authorized, the railways issue a new supplement for each of their

tariffs dealing with rates in the category covered. The result is that an increase of, say 5% is reflected in the record of number of tariffs filed by a figure which represents a supplement for each individual tariff concerned. When increases of that sort occur four or five times during a year, it makes a very impressive list of tariff changes, whereas in fact, there have only been four or five real changes. It is our view that a much less complicated method of filing these tariff changes could be worked out and it is our further view, and this view will be elaborated later in the chapter headed "Simplification of Rates and Tariffs," that a new method of issuing tariffs could be worked out which would greatly simplify the interpretation of tariffs so that the public could more readily understand them, and at the same time eliminate a good deal of the problem involved in the great number of tariff changes.

Even after all possible steps to simplify the tariffs and the methods of changing tariffs, it may be that there would still be too many changes to be handled on the basis of a review by the Board of Transport Commissioners in each case before the tariff becomes effective. We do not believe that would be the situation but if it is then our suggestion is that the railways should be authorized to introduce tariffs of this type on a temporary basis for a specified period subject to review by the Board in the meantime and that the Board should establish a procedure for periodic review of tariffs applying the criteria which are appropriate to each. A process of trial and error would make it clear as to what period of leeway was necessary to make such a scheme administratively possible.

It will be obvious that the application of the above principles would result in a much simplified rate structure based on a system of uniform class rates with all other rates subject to the above tests as to their validity. This aspect of the matter is discussed at some length in the chapter on "Simplification of Rates and Tariffs." We propose to devote the remainder of the present chapter to consideration of four specific cases in which the present rate structure does not conform to the above principles.

Uniform Class Rates

The first such situation is that which exists with respect to class rates. In Western Canada the largest volume of class rate traffic moves on what are known as distributing class rates. These rates apply on all traffic outbound from certain of the larger cities which have been designated as distributing points. On inbound traffic from the smaller centres to the "distributing points" and on traffic between two smaller centres the shipper pays standard mileage rates which are about 17% higher except where some special rate has been introduced to meet a particular competitive situation. These standard mileage rates also apply to the movement northward from the border of a large proportion of the traffic moving in from the United States. For example, farm machinery coming in from the

United States pays standard mileage rates from the border to its destination. In Eastern Canada a somewhat similar situation exists except that the "town tariffs" which are the eastern equivalent of the distributing rates apply both inbound to and outbound from the distributing points. There is the further distinction that in Eastern Canada the number of designated distributing points is much greater. Furthermore the standard mileage rates in Western Canada average about 14% higher than the standard mileage rates in the East and a corresponding difference exists between the distributing rates and the town tariffs.⁽¹⁾

It is the view of the Manitoba Government that these variations in the method of applying class rates cannot be justified in accordance with the criteria outlined above. In other words, we feel that your Commission should recommend that standard mileage class rates, distributing class rates and town tariffs should be consolidated into a single uniform basic class rate structure applicable to all parts of Canada and that any deviations from that uniform pattern should be treated as exceptions subject to the tests which have already been suggested.

Obviously a vital question in this connection is that of the level at which this new standard class rate structure is to be established. We do not have access to the data necessary to make a specific and detailed recommendation in this regard but it seems to be clear that the town tariffs in Eastern Canada move the largest volume of any of the rate groups involved in this suggestion. There would, therefore, seem to be considerable merit in suggesting that the level of the town tariff rates should be used as the basis of the new uniform rate structure. If that were done it would, of course, mean that the rates would be reduced for the traffic which now moves on standard mileage class rates and on distributing class rates. The resulting loss of revenue to the railways would then be reflected in the general calculation as to the adequacy of railway revenues. Our suggestion therefore is that your Commission should recommend the establishment of a uniform basic class rate structure at the level of the present town tariffs. This does not, however, mean that we advocate the use of the town tariff scale for each mileage. Rather we favor the general level of the town tariffs. In the section dealing with rates as related to distance we give in some detail our criticisms of the rates of taper which are embodied in the present Eastern standard mileage class rate scale and which underlie the town tariff structure.

We have already expressed our views as to the criteria which should be applied by the Board in deciding whether some rate lower than the normal rate is required in a particular situation. We have also stated that we feel that these criteria should be applied periodically by the Board to each such rate for the purpose of discovering whether circumstances have changed in the meantime. In our chapter on "Regional Considerations" we deal at some length with the

(1) See Exhibits 281 and 282 in the H.C. Com.

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attention regarding competitive rates in Eastern Canada. There are two other groups of rates to which we would like to call your attention at the present time, namely the so-called transcontinental rates and the rates provided under the agreed charge provisions.

1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2583, 2584, 2585, 2586, 2587, 2588, 2589, 2590, 2591, 2592, 2593, 2594, 2595, 2596, 2597, 2598, 2599, 2600, 2601, 2602, 2603, 2604, 2605, 2606, 2607, 2608, 2609, 2610, 2611, 2612, 2613, 2614, 2615, 2616, 2617, 2618, 2619, 2620, 2621, 2622, 2623, 2624, 2625, 2626, 2627, 2628, 2629, 2630, 2631, 2632, 2633, 2634, 2635, 2636, 2637, 2638, 2639, 2640, 2641, 2642, 2643, 2644, 2645, 2646, 2647, 2648, 2649, 2650, 2651, 2652, 2653, 2654, 2655, 2656, 2657, 2658, 2659, 2660, 2661, 2662, 2663, 2664, 2665, 2666, 2667, 2668, 2669, 2670, 2671, 2672, 2673, 2674, 2675, 2676, 2677, 2678, 2679, 26

The matter of transmittance rates was discussed by Printer Lamont in his brief statement at Washington. At that time he said

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At the request, however, of Winnipeg those rates were decreased in general terms, and the traffic prospered on behalf of the Winnipeg Chamber of Commerce and the Manitoba Federation of Agriculture, and their effect on the points of transit situated in Manitoba was illustrated in the case of vegetable and products by Mr. Fennell of the Great Western Co., representative and a fine man of dry cell batteries to Mr. Fennell of the C.N. Co., Canada Ltd.

Since the Uruguay regime, bearing a line close to our own, has that regime has been applied to the railways involving toward a substantial increase in the number of these transcontinental rail rates. However, the provisions that each of these rates should be raised up to the level of the rate charged for a general fare from Eastern United States to Seattle. For many reasons, which is not clear to us, these proposed increases have not been put into effect. In the meantime American rates have been at a further increase.

The first objection ordinarily advanced in defense of the proposed transcontinental rates is that they are necessary to protect the line of traffic to water transport from Montreal to Vancouver via Panama.

in accordance with the criteria which we have already discussed, we feel that it is proper for the railways to meet such competition provided that

1. The competition really exists or the threat of competition is real and urgent;
2. The rates charged by the railways are not lower than would be necessary to meet the competition,
3. The rates charged by the railways are sufficient to meet their out-of-pocket costs.

There are presumably the same criteria which are followed by the railways of the United States and yet the United States railways have put into effect very substantial increases on their transcontinental rates. It is our view that as a minimum the Canadian transcontinental rates should be raised up to the level charged by their most serious competitors for that traffic, namely the railways of the northern United States and that studies should be instituted to see whether a rate even as low as that can be justified.

Agreed Charges

In 1938 the Transport Act provided that notwithstanding the provisions of the Railway Act, a railway could make agreed charge contracts under which the railway would grant special low rates to any shipper who would agree to give the railways a specified part of his total shipments. This provision was designed to give the railways a weapon to protect themselves against truck competition. The argument was that under an ordinary competitive rate a shipper could have the advantage of railway transport during the winter when operating conditions are bad and could then use trucks during the good operating season. The railways were to be able to offer a lower rate provided the shipper would agree to use railway facilities on a year round basis. Quite extensive provisions were included in an attempt to prevent abuse of these arrangements including a provision that the Board can institute a similar rate for any competing shippers who are discriminated against by the agreed charge.

In practice this system of agreed charges has led to misunderstandings and illwill between groups of shippers and between shippers and the railways. One point is of particular concern to those who have been active in the recent freight increase case, namely the fact that when an additional 15% increase was applied by the railways to competitive rates, no such increase was applied to agreed charges.

The first submission of the Manitoba Government on this subject is that your Commission should recommend that agreed charges should be subject to the criteria suggested by Mr. Walker as applicable to competitive rates, namely they should be no lower than is necessary to retain the traffic and no lower than a level which will

return to the railway, something more than the out-of-pocket cost of the service. Whatever additional safeguards or special conditions might be required, it is clear that from the point of view of the railways themselves, the minimum level for agreed charges should be determined by the same criteria that apply to competitive rates.

Our second submission in this regard deals with the provision for extending these rates to a competing shipper if the Board finds that he will be unjustly discriminated against if he does not get the rate. To apply this principle in practice, it is necessary that all shippers who might be adversely affected should know about the rate and should be in a position to assess its effect upon them. The Act provides for publication of the agreed charge for the purpose of informing those who are interested, but in practice the result has been that only the larger companies whose business is sufficient to justify them in paying the cost of a traffic specialist can keep themselves informed and adequately assess their position. It is the view of the Manitoba Government that it is wrong in principle to provide that a discriminatory rate of this sort can be instituted for a particular shipper and then extended to those who hear about it and protest. Rather the principle should be that the rate is automatically available to all who ship the same type of goods under substantially similar circumstances.

It may be said in reply to these criticisms that, in fact, they are all provided for in the present legislation and that we are advocating nothing new. If, in fact, the agreed charge provisions are applied in the manner which we have advocated, and if the publicity provisions are adequate, then it is our view that in their essential characteristics, agreed charges are simply another form of competitive rate. If so, we can see no advantage in retaining the distinction and we can see real danger that the retention of the distinction will continue to produce bad feeling in many quarters and real hardship for smaller shippers who either cannot take advantage of agreed charge provisions or can only do so after incurring costs for representation, etc., which are out of proportion to the size of their business.

Mixing Privileges

The final matter with which we wish to deal in this chapter is that of the difference between the mixing privileges allowed on shipments in Western Canada and in Eastern Canada. This is another matter upon which it is our view that your Commission should recommend that a uniform practice should be established in all parts of Canada. The arguments on both sides of this issue have been presented at considerable length in various submissions at the different regional hearings. It is therefore not necessary to repeat them at this time. One point requires emphasis, however, namely, the fact that in past decisions on this matter, the Board of Transport Commissioners has been guided very largely by the views expressed by

those who appeared before it. Unfortunately, in an issue of this type appearances before the Board tend to be restricted to the relatively few large organizations who derive benefit from the restricted mixing privilege in Western Canada. On the other hand, the relatively large number of individuals and smaller firms who are adversely affected by the present arrangement are, as in so many other matters, under a severe handicap in making their viewpoints known.

It is our view that if the present Eastern mixing rule were applied throughout Canada, the competitive position of the larger wholesalers would not be materially altered whereas there would be some benefits to consumers, and to smaller distributors and manufacturers. At the same time, an important source of irritation and bad feeling would be eliminated. The effect upon railway revenue would, in our view, be negligible because at the present time a relatively large proportion of the traffic concerned is already being moved at carload rates, although the shippers are paying higher charges. The difference is being absorbed in many cases as the cost of operating forwarding agencies who arrange and handle pool car shipments.

CHAPTER X

Regional Considerations

This section of our submission deals with a subject which has been a matter of great concern to the people of Western Canada since before the first World War, namely the discrimination against the West which is reflected in the fact that railway freight rates are higher in Western Canada than they are in Eastern Canada. This subject has been discussed in almost all of the major judgments of the Board of Railway Commissioners since that Board was first established. As has been pointed out in the section above which deals with the principle of the harmonia increase the practice followed by the Board in the past has been that whenever a general increase in rates was authorized that increase was greater in the East than in the West with the difference of reducing the differential under which Western Canada had been placed by the first rate structure which was established. Throughout the whole history of this controversy there has been a general acknowledgment that such a differential existed or that Western rates were higher than those of the East. It is true that there have always been cases of individual rates in which the opposite situation prevailed but the general average level of all rates in the West has been consistently higher.

The question of the magnitude of this differential has been a contentious one. An attempt at measuring it appears to have been made in the so-called 20% Case of 1920, in which Chief Commissioner Carvell made the following statement:

Allowing for the important fact that a very large proportion of the traffic goes East and West on a community basis, I am still forced to the conclusion that the rates in Western Canada average considerably greater than in the East, possibly around 15 or 16 per cent.¹

It is not clear from the context or from any information which is available to us what method Chief Commissioner Carvell had in mind in making that statement or the route by which he arrived at the figure of 15 or 16%. It is a matter to the best of our knowledge the only figure which had been produced prior to the hearings in the 20% Case. During those hearings the various railway traffic witnesses were asked by previous counsel whether they could give any estimate as to the amount by which Western rates exceeded Eastern rates but the answer was always that no such calculation had been made.

In view of the fact that the railways could give no answer to the question of the extent of the differential the Province of Manitoba made an effort to estimate the figure by the methods which were available to it. That estimate appeared as Exhibit 226 in the 20% Case. It relied upon C.P.R. data for the year 1946 and upon

methods which were being used by the Interstate Commerce Commission of the United States. The conclusion reached in Exhibit 326 was that on the average, rates in Western Canada were higher than rates in Eastern Canada by 14%.

The figure of 14% would have been reduced to 13.3% if grain rates had been excluded. This fact was pointed out in the discussion of Exhibit 326, but it was felt that since the exclusion of grain resulted in only a slight change in the figure it would be convenient to proceed on the basis of the 14% figure. In the light of changes in grain rates since 1946, however, the situation with respect to grain deserves special consideration in considering rate level comparisons at the present time.

The first chapter of this submission pointed out that the people of Western Canada are concerned with the rates on grain moving from the point of production to the market. Consequently our interest in these rates is not restricted to that part of the haul which is purely Western. Our interest in the rates on grain from the Bay Ports to Montreal is equally direct and vital. If Eastern rates in general are lower than rates being charged in the West, it is no comfort to us to be told that the situation will be corrected by raising grain rates in the East and holding Western grain rates low. The impact of such a change rests squarely and almost exclusively in the West.

Adjustments of the rates on grain between 1946 and 1948 were made which raised the Eastern portion of the rates by approximately 30% while the Western portion remained unchanged. It is our contention that such an adjustment can in no way be considered as a step toward the equalization of the regional rate levels. It is for this reason that the remainder of this chapter proceeds in disregard of rates on grain and the comparisons which it contains are based on all traffic other than grain.

It may be pointed out parenthetically that there are certain Western products other than grain which find markets in the East and overseas and which must therefore be shipped over Eastern lines and charged "eastern rates." These charges are borne by the Western producer in exactly the same way as are the charges on the shipment of grain. They have not been excluded in the comparisons drawn below only because the data available fails to isolate them from the general traffic in the way that grain shipments are isolated.

By excluding grain from the calculations in Exhibit 326 a rate level differential of 13.3% against the West was found to have prevailed. This result was based on the latest data available at the time, which was data pertaining to the calendar year 1946. Since that time there have been considerable rate increases in various categories of traffic, the effect of which was summarized in Exhibit 49 174 of the 20% Case. That exhibit indicates that rate increases occurring between July 1, 1946 and January 11, 1949, had increased the revenue

of the C.P.R. by 27%. A further increase of 3.7% on international and related rates has occurred since that date. The 1948 revenues did not, of course, reflect the full amount of those increases, but since 1948 is the latest year for which complete records are available it is useful to consider the effect of those various increases as reflected in the figures for 1948. The C.P.R. has made available on request the 1948 data comparable to that which was used in Exhibit 326 for 1945. These figures are shown in Appendix A to this submission. From that data it has been calculated that, on the average rates in Western Canada increased by approximately 11% and in Eastern Canada by approximately 19% during the period 1946 to 1948. "

Grain rates have been excluded from this calculation for the reasons already mentioned. Clearly the effect of the various increases has been to raise rate levels in Eastern Canada to a greater extent than in Western Canada. The explanation lies in the fact that large increases have taken place in international and related rates, which occupy a more prominent place in the total Eastern rate structure, and at the same time the additional 15% increase in competitive rates has had a more concentrated effect in the East because such rates are more numerous, absolutely and relatively, in that region.

In the Appendix attached to this submission will be found a re-calculation of Exhibit 326 on the basis of 1948 data. Its results may be summarized in the statement that on the average the rates being charged in Western Canada in 1948, exceeded the rates being charged in Eastern Canada, by 6 1/4%. As has already been pointed out, however there were further rate increases during 1948 and 1949 which will change that result. No precise estimate as to the overall effect of those changes is available nor will it be possible to make such a calculation until the total results for 1949 have been computed. However, it does seem clear that the differential for 1949 will be somewhat less than 6 1/4%. At this point it should be made clear that we are not suggesting that this figure represents an exact measure of the rate differential. Rather we advance it as the most reasonable estimate which is available from methods and data which are available. We strongly urge that your Commission give consideration to this problem of comparing rate levels and that it either develop a method itself or adopt one which it feels to be satisfactory.

Danger that Differential will be Greater in the Future

It should be emphasized that the reduction in the differential between the Eastern and Western rate levels during the last three years was not brought about by any action either by the Board of Transport Commissioners or the railways, designed to reduce those differentials. Rather, it has been brought about by the fact that international and related rates have been increased in line with

substantial increases in the United States and because the railways, in their search for more revenue raised competitive rates by 14%. Because these three groups of rates are more concentrated in the East, the effect has been to raise the Eastern average by a larger amount than was the case in the West. We would point out, however, that in their second application for a 20% increase in freight rates, the railways proposed to demonstrate to establish a substantial part of this differential by requesting a 2% increase in freight rates other than competitive rates, the latter being restricted to a proposed 5% increase. The very nature of this application provides ample proof that there is an adequate protection against the reappearance of the differential in the future and indicates simply the need for a more rigorous supervision over matters of this type by the Board of Transport Commissioners. If insisted on, the efforts to wipe out the differential between the two major rate areas of Canada and in spite of government directives urging a condition of rate equal to the maximum of, and it happened to follow a course which increases the differential, have no justification in making the impression that a strengthening in the machinery of rate regulation will be necessary to achieve the result of regional equality.

In urging a more effective control of railway freight rates as a means of achieving and the obtaining an approximation to regional equality, we are not unaware of the fact that the rate structure must be adaptable to some extent at any time if it is to be useful to the railways in meeting the changing transportation problems with which they are faced. All pertinent competition is the need to meet competition from other modes of transport. The Main Idea Government is appreciative of the reaction of this situation and does not wish to be in the hands of railway management in this regard. It takes this attitude, however, we do not acknowledge the importance of all those outstanding rates which created such large numbers in Eastern Canada and recently and which accounted for much of the rate area differential. The very fact that they could be placed on as broad a basis as a general 5% increase in competitive rates over and about a point 2 1/2% increase only a month before, suggests to us that there must have been some considerable increase in existence before the increase. A closer and more careful check over the attraction of outstanding rates as suggested in the chapter entitled Characteristics of the Present Rate Structure, would have restricted many of these rates from being introduced in the first instance, and would have brought about changes in others as the strength of the competitive forces diminished and as railway material power costs increased. The important point is that the heavy concentration of competitive rates in the East, the raising of which was responsible for the reduction in the rate level differential, should not have been there to the same extent in the first place.

Competition as an Explanation of Regional Differentials

Although it is our view that the importance of competition as an explanation of and justification for the low Eastern rates has

been more than slightly exaggerated in the past, there is no denying that competitive transport facilities are more significant in the general field of transportation in the East than they are in the West. However, the difference is probably not as broad as the many statements which have been made on that question might lead one to believe. Particularly with respect to trucking operations, which offer the most widespread competition to the railways, it would be well to state clearly the nature of the regional difference.

There is no denying that more trucks operate and carry more traffic in Eastern Canada. At the same time our knowledge of the situation leads us to suggest that where hauls of any particular commodity for any particular distance are concerned, the competitive situation is so nearly the same as to provide little justification for rate disparities. In considering for example, short distance shipments of the type of commodity which is most suited to truck transport, e.g., livestock, packaged goods, milk, cream, etc., the element of truck competition is strong in all parts of the country. It is doubtful that in the case of a short haul out of Winnipeg, for example, in this type of commodity, truck competition is any less important than it is for a similar haul out of Toronto. Trucks are used to move the same general groups of commodities over roughly equal distances in the West as in the East. The important difference between the two regions lies in the fact that a greater proportion of the total eastern traffic is of the sort which tends to move by truck. This being the case, it is understandable that the effect of truck competition may be more important in the East, but it does not follow that for any particular commodity for any particular distance, the rate in the East should be lower than in the West.

Regional Profitability in the Past

In the past therefore, and to a lesser extent at the present time, rate levels in Western Canada have been higher than rate levels in Eastern Canada. The remainder of this chapter is directed to a consideration of the revenue derived by the railway from these unequal rate levels and to the costs which the railway has paid out to perform the service for which these rates are paid. In other words, we wish to discuss the regional aspects of gross revenue, operating expenses and net revenue.

The people of the prairies have, for many years, held the view that the discrimination against them was particularly unjust because it consisted not only of freight rates at levels higher than those in the East but because those higher rates were applied in an area where the costs of providing railway service were low. The result of this combination of high rates and low costs has been that railway earnings in Western Canada have always been much greater than in Eastern Canada.

SUBMISSIONS AT OTTAWA HEARING

From exhibits in the various rate cases, it is possible to make the following comparison of net revenue to the C.P.R. in Eastern Canada and in Western Canada:—

Year	C.P.R. Net Revenue East	C.P.R. Net Revenue West
1916	17.1	36.3
1917	15.2	33.9
1918	14.1	23.6
1919	13.5	22.7
1920	10.7	28.3
1921	9.0	27.8
1922	12.2	26.2
1923	12.8	24.4
1924	12.6	22.8
1925	13.8	27.9
(Figures for years 1926-35 not available)		
1936	5.8	17.5
1937	10.0	13.7
1938	8.3	17.4
1939	5.9	22.6
1940	14.1	21.6
1941	16.9	29.0
1942	20.9	27.3
1943	19.5	29.7
1944	11.5	31.6
1945	18.1	22.9

Unfortunately no data has been provided for the years since 1945 except that which was shown in Exhibit 94 in the Mountain Differential case for the twelve months ending October 31, 1948. From that Exhibit it can be calculated that net revenue in the West was \$13.4 million, and net revenue in the East \$12.9 million.

It is clear from this table that over the period for which figures are available, the C.P.R. has shown earnings in the West which have been approximately twice as great as its earnings in the East. In other words in the twenty years for which figures are available the practical effect is this: The total revenue collected in Western Canada exceeded total operating expenses in Western Canada by \$507 0million, while the excess of revenue collected over operating expenses in Eastern Canada was only \$252.0 million. These figures represent the cumulative dollar totals involved. They reflect the overall results of differences in rate levels, differences in operating costs, differences in traffic density, differences in the character of the commodities hauled and of all other differences which existed between the two areas in those years.

It is common knowledge that the C.P.R. has considerably more miles of track in the West than in the East. In fact the relationship between miles of track in the two areas is very close to the relationship between dollar profits. In other words the profits per

(1) Exhibits 118 and 127—1947 Freight Rate Investigation, Exhibit 131—34% Case.

mile of track have been approximately equal on the average over the period. But dollars earned per mile of track is not a significant figure. Two other figures would be much more enlightening, namely, earnings per dollar spent in operating the system, and earnings per dollar invested in the system.

The relationship between earnings in the two regions and operating expenses in the two regions was set out in Exhibit 340 in the 30% Case. That Exhibit can be summarized thus in terms of annual averages for the 10 year period 1936-1945 inclusive:

	Gross Earnings (\$ million)	Working Expenses (\$ million)	Net Earnings (\$ million)
Lines East	102.5	90.4	12.1
Lines West	113.8	90.0	23.8

It is clear from these figures that working expenses on Eastern lines and on Western lines were almost identical with an average of just over \$90 million per year in each region for the period covered. But whereas an expenditure of \$90 million produced an average net earning of \$23.8 million in Western Canada, an expenditure of \$90 million produced an average net earning of only \$12.1 million in Eastern Canada. Putting this fact in another form it is this: For the same expenditure of money the C.P.R. over the 10 years, 1936-1945, was able to earn \$23.8 million in Western Canada and only \$12.1 million in Eastern Canada. In our view the important comparisons are these and their significance is in no way reduced by the fact that for the same outlay in working expenses a larger mileage of track was operated in the West.

Even a casual observer can be sure that the cost of construction per mile of track is much lower on the average in the Prairie area than in any other area. It is true of course that construction costs from Winnipeg to the lakehead were much higher but the great bulk of the western mileage of C.P.R. is in the low cost prairie area. Consequently it seems clear that the proportion of C.P.R. investment in the Prairies must be much lower than the proportion of its total track mileage. No figures have been produced by the railways, however, to show any breakdown of investment between the East and the West. Consequently it is not possible to present any figures showing the relationship between earnings in the two regions and investment in the two regions.

Regional Profitability Now

As has been pointed out, the freight rate adjustments of the last few years have had the effect of reducing the disparity between eastern and western rate levels. Consequently, one of the factors making for unequal earnings has been reduced in importance but the difference in operating cost factors remains as it was. The total

effect has been a material lessening in the discrimination against Western Canada although no figures are available to show the situation in 1948.

It therefore appears to us that the present position as to the overall level of rates in the east and the west and as to the overall level of earnings in the two areas is significantly improved as compared to the situation in the past. We do feel, however, that there are still certain particular matters on which action should be taken to eliminate inequalities which are important in particular categories. We have in mind here the items mentioned in the chapter entitled "Characteristics of the Overall Rate Structure."

Regional Profitability in the Future

Changes in the freight rate structure may become necessary in the future whether for reasons of changed financial need of the railways or of a reappearance of the play of competitive forces in those areas in which they have been most effective in the past and these future developments may be of such a nature that the former inequalities may reassert themselves. It therefore seems advisable to consider the policy to be adopted if that situation threatens.

Just as it is proper for the country as a whole to provide sufficient revenues to allow the railways to perform their functions, but no more, so in our view it is proper that each of the major regions of the country should pay for the services which the railways provide for that region, but no more. There is no denying that a complete separation of costs and of revenues on a regional basis cannot be made with perfect accuracy. However an approximation arrived at by the use of generally accepted techniques of cost accounting will serve the purpose. Having done this the test of regional profitability may then properly be applied to the problem of determining just how much of the cost of operating the national transportation system any particular region should be called upon to pay. It provides an upper limit to the level of rates to be charged in any region, that limit being the rate level necessary to produce sufficient revenue to the railway to pay for the cost of its operations in that region.

It is our view that the implementation of the suggestions outlined in the chapter entitled "Characteristics of the Overall Rate Structure," particularly the standardization of class rates and the application of regular tests to other rates would prevent the introduction of unjustifiable differentials in rate levels. Nevertheless, a further growth of competitive factors in those areas where competition is already important might mean that even within the above criteria the general level of rates would decline significantly in one area with the result that revenues in that area would not cover the cost of providing service in that area.

In the past such a situation was met by keeping rates so high in the West that in fact the West paid its own operating costs and

provided a considerable amount in addition which was available to meet expenses for which the East was not paying its proper share. It is the view of the Manitoba Government that this situation should never be allowed to occur again. We are prepared to pay a level of freight rates in Western Canada sufficiently high to cover the cost of railway service in the West. We are not prepared to pay a level of freight rates which provides a form of subsidy to the East in addition.

It is for that reason that we feel that your Commission should recommend that regular studies should be undertaken to keep the Board fully informed as to railway profits in each of the major regions of Canada and that the Board should never call upon one region to pay freight rates to be used to subsidize lower rates in another area.

The Manitoba Government takes the firm position that if the railways' revenue requirements are such that they require further rate increases in the future, those increases should not be applied in any region in which satisfactory profits are already being earned. There is no good reason why freight payers in one region should be penalized by higher rates in order that unfavorable railway operations elsewhere be offset. If additional revenues are required to cover operations in one area and if the competitive aspects of the transportation industry are such that aided funds cannot be raised through higher rates in that area, then the Government of Canada must decide whether it is in the national interest to maintain our railways at the present scale in that area. Should the decision be an affirmative one then the responsibility for implementing it is a national responsibility and should be met out of the national treasury.

In advocating the use of subsidies in this way we do not wish to leave the impression that we consider subsidies to be a fundamental answer to the problem of meeting the cost of railway operations in Canada. In this particular context, however, we feel that subsidies may be the only way of avoiding a situation in which the region least adequately provided with transportation facilities and at the same time most heavily dependent upon them is called upon to subsidize indirectly through the freight rate structure the region which is most amply provided with such facilities. Furthermore, we do not feel that subsidies are necessary even for this limited purpose at the present time. It is our view that under present conditions it is quite possible for the railways to raise their rates in Eastern Canada to a level which will yield sufficient revenue to pay for the services provided there. But our fear is that at some time in the future this may not be possible and our suggestion is that a subsidy to the eastern operations should be considered at that time in preference to an effort to raise western rates to provide the additional funds.

The views expressed in this section may be summarized in the following way:

1. We urge that your Commission recommend that immediate and effective action should be taken to eliminate whatever remains of the differential between the rate levels in Eastern and Western Canada. The mere narrowing of this differential is not enough. The goal is parity insofar as that can be achieved. That goal has been expressed in many previous judgments of the Board of Transport Commissioners and in various Orders-in-Council directing previous enquiries. We feel that the goal is now within a reasonable distance of achievement and that there is no longer any justification for the vestige of the differential which remains. Our recommendations in the preceding chapter would, if implemented, go far to removing the differential which still remains.

2. We urge that your Commission recommend that the Board of Transport Commissioners be clothed with the added powers necessary to eliminate any possibility of a regional rate differential appearing again in the future except under the most pressing circumstances.

3. We urge that your Commission recommend that whatever the changes in the rate structure which are made necessary by future developments in the transportation industry, they should not be allowed to result in a situation in which any one region is being penalized in the form of unnecessarily high rates in order to offset revenue deficiencies elsewhere.

CHAPTER XI

Administrative Organization for Board Purposes

This outline of the views of the Manitoba Government on the many questions associated with the public regulation of Canadian railways would not be complete unless it also gave attention to the administrative organization which would be required to carry out that regulation. At several points in the preceding chapters of this submission we have referred to administrative considerations in relation to the particular matter under discussion at the time. In this present chapter we deal with administrative organization on a broader basis, with the accounting and statistical records which will be necessary if the Board is to be able to administer the policies we have advocated and with the steps which might be taken to simplify and clarify the freight rate tariffs in order that the public generally might be better able to understand them and their implications.

Board Staff

Our first submission is that the Board should equip itself with a sufficient staff of experts in the various fields so that it can have access to highly qualified technical advice from persons who are not connected with the railways or any other interested party. We do not mean by this that the Board should necessarily have a numerous staff. A relatively small staff of highly qualified individuals and a practice of seeking outside independent professional advice would, in our view, be preferable to an attempt to build up a large permanent staff. The numbers and qualifications of the persons in these categories would depend upon the frequency with which major rate cases occur in the future and upon the experience gained in dealing with them. For those reasons we do not feel that it would be useful to attempt to anticipate personnel requirements in advance. It is our view that your recommendation on this matter should be that the Board should equip itself with a sufficient staff of experts and consultants in the various aspects of its work. This staff should, in our view, be considerably stronger than that which has been available to the Board in the past and it should consist to a greater extent, of persons qualified in financial and economic matters and in the use and availability of information concerning developments outside the field of railway transportation itself. In the past the Board's staff has been fully occupied with safety regulations and operating matters and with the filing and recording of tariff supplements. It is our view that in the future the staff organization should be altered to place much greater emphasis upon those aspects of railway regulation which have received attention in this submission.

Simplification of Rates and Tariffs

One matter to which the Manitoba Government would like to direct the attention of your Commission is that of the need for simplification of Canadian freight rates and of the tariffs in which those rates are set out. For the great majority of the people of Canada, the only direct contact with this question comes when they attempt to discover the charges which they must pay to ship a given commodity from one point to another. Even the most casual acquaintance with railway freight tariffs will convince the average individual that it is virtually impossible for any outsider to read and understand these tariffs and to discover for himself what the charge would be for any particular shipment. The result of this situation is that the larger shippers with experienced staffs of traffic specialists are in a position to take advantage of any special concession which may be included in the tariffs whereas the casual shipper or the shipper who moves only a relatively small volume of traffic is quite unable to do anything except pay the charges which are asked by the particular freight agent whom he happens to be dealing with.

Under these circumstances, in the great majority of cases it is probable that the rate which will be quoted will be the first rate which is discovered for the particular haul concerned and that in many cases that rate will be higher than the rate which would be charged if a more careful study were undertaken. There is no suggestion here that the rate which would be quoted would be an unauthorized one or one which is improper in any way. Rather the suggestion is that since in many cases there is a choice of a different routing or of a different combination of rates a careful study of the situation would bring out the fact that there are several possible rates all of which are perfectly proper and all of which have been authorized. We might point out that there are in all the larger shipping centres firms and individuals whose regular source of income is derived from freight but who are under arrangements in which they study the freight bills paid by firms and are paid a certain percentage of any refunds or savings they discover by reason of the fact that there was available a rate lower than the one which was charged.

In the case of larger shippers who are moving a relatively large volume of traffic the practice has grown up of retaining a person who becomes a specialist in these matters and who divides the great bulk of his time if not all his time in working out alternative routings and alternative methods of calculating rates for the purpose of securing for his company the lowest rates possible. The fact that such rate specialists are used by so many of the larger firms is in itself proof that in the opinion of the management of those firms, the savings which are made in that way are considerably greater than the cost of the salary and the other expenses involved in retaining such a person on the staff. The implication, therefore is that the smaller firms, who do not have the use of such specialists, must

be paying rates which in total, are higher than they would otherwise have to pay if they fully understood the various alternatives which are open to them.

The result of this is that if a shipper wishes to get the advantage of the lower freight rates in which he is entitled, he must pay those rates and in addition he must pay the money and expenses of a freight agent to maintain the constant study of freight tariffs and the various alternatives which they offer. This situation, therefore, means that the small shipper faces an important competitive disadvantage as compared with the larger shipper who can pay for such work. Our basic objective in asking for a simplification of freight rates and rate tariffs is the elimination of conditions of this sort.

In addition to the unsatisfactory situation which exists in respect to the day by day operations of freight rates as paid by shippers there is the effect upon investment gains in the Board of Transport Commissioners by Commissionaries coming to the present one in which effort is directed toward a study of the relationship between rates charged in different areas or for different commodities. The complications of the present rate structure and the rate tariffs make such attempt very naturally impossible. We are not merely saying that it would be more convenient and make possible a more conclusive statistical study if the rate structure were simplified, rather the point is that under the present system it is impossible to discover what the rate really is on the various basis and for the various commodities. Any person who quotes such a rate runs the risk that the railway traffic specialist will find that he has quoted a wrong rate and that the comparison which he is offering is invalid. The result is that no one can prepare any satisfactory analysis of rate relationships and no one is able to state what the relationship is.

Evidence offered by a number of witnesses at various regional hearings clearly establishes the fact that even the highly experienced traffic experts are very cautious in stating the rates which apply on a particular commodity. In a considerable number of cases, highly qualified traffic experts presented evidence in which they quoted particular rates and were then forced to correct those rates and to quote different rates after the railway traffic experts had had an opportunity to study the tariff and to work out other possible routings to show that lower rates could be secured in that way. If this situation exists with the type of individual who is willing to appear before a Royal Commission and to do the preparation necessary for that purpose it seems clear that the smaller shipper carrying on his regular business will find that it is completely beyond his power to attempt to deal with the problem and the result will be that he will accept the charges quoted by the first railway freight agent even though subsequent studies might prove that a lower rate existed.

The objective of the Manitoba Government, in suggesting that your Commission should recommend simplification of freight rates

and freight tariffs, is the elimination of the time and expense which is involved for shippers in their efforts to calculate the rates which are applicable to the shipments which they have in mind, to eliminate the competitive advantage which the larger shippers with freight traffic experts have over the smaller shippers, and to make possible the securing of definite figures as to the rates applicable for various commodities to the end that the policy decisions which must be made by regulatory bodies can be based on definite factual information. For these reasons, the Manitoba Government makes the following suggestions as to the means by which a considerable degree of simplification might be achieved:

Our first suggestion is that an additional number of class rates should be established at levels lower than the current 10th Class. In that regard, Item 9 of the Manitoba Brief of Points reads as follows:

"On a more technical matter it is our submission that the class rate structure as it now applies in Canada should be carefully studied together with certain recent changes directed by the Interstate Commerce Commission of the United States with a view to determining whether or not it would be advisable to establish an additional number of classes in Canada at rates lower than the present 10th Class rate so that a greater percentage of the traffic will move at rate rates and will consequently be under more adequate control by the Board of Transport Commissioners."

In the present rate structure there are a relatively large number of commodities for which there are so-called commodity mileage rates which apply over relatively large areas and which in some cases, carry a substantial volume of traffic while in other cases, special rates of various sorts carry the traffic at lower levels even than the commodity mileage rates. These commodity mileage rates are in many cases different in Eastern Canada than in Western Canada and their status is not precisely defined, with the result that there is some doubt as to the exact jurisdiction of the Board of Transport Commissioners in respect to them. For example it is not clear exactly what changes can be made by the railways without the necessity of a formal approval of the Board of Transport Commissioners. The suggestion is that new class rates should be established at levels lower than the current 10th Class, and that those commodity mileage rates should be incorporated into the class rates, by assigning each commodity which now has a commodity mileage rate to the class which is nearest to the commodity mileage rate. The effect would be first of all to standardize the rates for these commodities in the different parts of Canada, secondly to bring them under the jurisdiction of the Board of Transport Commissioners for all those matters in which the Board has control of class rates, and thirdly to simplify the rate structure in such a way that the public and the shippers will be able to understand and analyze the rate situation in respect to these commodities, without the need for the same amount of expert knowledge which is required at the present time.

In addition to the class rates and commodity mileage rates, there are in the rate structure approved by the Board of Transport Commissioners, at the present time, several varieties of competitive and commodity rates. The criteria by which these rates are judged and the authority of the Board in respect to them, varies in the different categories and in many cases, is not at all clear. It is the view of the Manitoba Government that the situation would be much more satisfactory if these minor distinctions were eliminated and if the rate structure were reduced to two types of rates, namely class rates, embracing the type of rates which have been discussed above, and "other rates." This category of "other rates" should, in our view be treated in the manner which has been outlined in respect to competitive rates, in that they should be subject to the tests which have been outlined for competitive rates and should be subject to change only when those tests have been met in the manner outlined.

One other source of difficulty is worthy of comment, namely the fact that for a particular shipment it is very difficult for the shipper to discover whether or not there is a special or commodity or competitive rate in existence which would give him a lower charge than the standard rate. At the present time to discover this involves a lengthy study of the relevant tariffs and the relevant supplements to those tariffs. Although we have no concrete suggestion on the matter it is our view that your Commission should recommend the provision of a more clear cut method of discovering whether or not the particular shipment is subject to the regular class rates or whether some "other rate" applies. The system which is worked out for this purpose should also give some indication of the source from which one would determine the applicable rate. If such a system could be worked out, it would eliminate the time and expense which is now involved in a study of all the tariffs which might conceivably refer to the particular commodity concerned, because under the present arrangement, some extensive search of this sort is involved in any effort to answer this question.

Review of Commodity Classifications

Implicit in the suggestion that a number of additional new classes should be established, is the suggestion that there should be a complete review of the existing freight classifications for the purpose of establishing what commodities should fall in the various new classes. It is our view that this new classification should not, however, be restricted to this purpose only. The present classification has been in existence for many years and operating conditions and the character of the traffic in various commodities has been materially changed in the interval. Consequently, it seems to us that a thorough review of the classifications should be undertaken in the light of present conditions.

One of the major changes which would be introduced, would, of course, be the assignment of the commodities to fall into the new classes. Furthermore, in a number of cases at the present time a commodity moves at rates equal to one of the lower class rates but the arrangement is set up as a commodity rate at that level and the commodity continues to appear in a higher class in the official classification. In such cases it is our view that the commodity should be reclassified and placed in the lower classification and that the reference to it in the higher classification should be eliminated.

Clearer Contact With the Public

Another matter which is related to this question of simplification is that of providing machinery by which the public and shippers can secure information on these subjects. At the present time the only sources of information which are available outside of Ottawa are those which are provided by the railways and by the Canadian Freight Association which is merely a joint agency among the railways. It is the view of the Manitoba Government that some arrangement should be made whereby shippers and the public can secure information and discuss their rate problems with a person having expert knowledge of the situation who is not directly associated with the railways. For that purpose we feel that your Commission should recommend that the Board of Transport Commissioners should provide local representatives in each Province. At the present time there are local representatives at certain points in Canada but their attention is devoted almost entirely to questions of safety and accident prevention work. Our suggestion is that local representatives dealing with rate matters should also be provided or that the present local offices should be expanded so that they can perform that function also.

Another suggestion is that provision should be made for public hearings on a more frequent and less formal basis. At the present time, the Board spends a good deal of its time in travelling throughout Canada and holding formal hearings at various centres. In many cases these hearings are concerned with relatively minor matters. The result is that the Board itself has less time for the consideration of general policies while in outlying areas the public can meet the Board only infrequently and at full formal hearings. Our suggestion is that your Commission should recommend that arrangements should be made whereby the Board can delegate its public hearing functions on minor matters, either to one member of the Board or to a senior member of its staff with a provision that any decision reached on such a basis would be subject to appeal to the full Board. Such an arrangement would free the members of the Board to devote their attention to major issues and to overall policy. At the same time it would make possible more frequent hearings in the different parts of Canada. What we have in mind here is the creation of a position somewhat similar to that of the "examiners"

in the Organization of the Interstate Commerce Commission. In that organization, the "Examiners" are senior members of the staff but not members of the Board itself. They hold hearings and report on facts to the Board and apparently advise and assist the Board in all its policy decisions and in the preparation of its statements of policy and its written judgments.

Prescribed Standard Accounts

Subsection (d) of Section 2 of Order-in-Council P.C. 6038 reads in part as follows:

"Review the present-day accounting methods and statistical procedure of railways in Canada, and report upon the advisability of adopting (or otherwise), measures conducive to uniformity in such matters."

The various matters which have already been discussed in this present brief provide many illustrations of the need for some improvement in the accounting and statistical records which are now available concerning the Canadian railways. During the course of the hearings before the Board of Transport Commissioners on the last two applications for rate increases, it became clear that in many instances neither the Board nor the Provinces were able to analyse and interpret the published railway accounts properly because of three major difficulties. These difficulties were that in some cases:

1. Proper analysis of certain totals was not possible because of lack of information as to the precise content of those totals;
2. Comparison of one railway's accounts from year to year and from period to period, were of limited value because of changes in the accounting policies of that railway;
3. Comparisons between the different railways were rendered difficult because the railways concerned did not follow like accounting policies.

The result was that there were many analyses which the Provinces were unable to make and on a number of occasions, analyses which were made and presented to the Board, were found to need substantial revision after railway witnesses and counsel provided detailed information as to the content and preparation of the accounts.

It does not seem appropriate at this point to attempt to give extensive examples, but a reference to the discussion on the maintenance accounts and on depreciation accounting as already covered in this brief, will make clear the significance of this point in respect to those two items. Similar problems arise in the case of the division between rail and non-rail expenses and rail and non-rail income. We have not been able to make such a careful analyses of all aspects of the railway accounts but the fact that a number of situations of this type have been discovered suggests to us that a thorough review of

the whole accounting set-up should be made for the purpose of eliminating so far as possible, the three types of difficulties enumerated above.

One point should be made clear at once. We are not suggesting that the railways are keeping their accounts in an inaccurate manner. Neither are we suggesting that the accounts are not capable of interpretation by a person who has full access to them and who is familiar with the principles upon which they are based. Our criticism is two-fold, however:

1. Neither the public nor the Board has access to sufficient detailed information to be able to interpret properly, those accounts which are made available.
2. Certain matters which, in our view, are vital to national transportation policy, cannot be dealt with because the accounts are so constructed that the relevant information is not available.

To a large extent these difficulties would be overcome if the Board and the public had easier access to detailed information from the railway accounts but even the fullest disclosure of details would not remedy other defects. The primary accounts, in certain instances, reflect the policies of railway management as to how those accounts are to be kept. For example if depreciation accounting is used for road assets, the charges for current maintenance will be handled differently from the procedure which would be followed if road is on renewals. Important variations in financial results might therefore result from a difference in accounting policy, while the accounts themselves would be perfectly complete and perfectly accurate in both cases.

One other preliminary matter requires clarification. The objective is not merely uniformity, rather it is uniformity upon a set of standard accounting classifications which will provide the necessary information. If one were to interpret the above quotation from Order-in-Council P.C. 4023, literally, it seems to imply that the only requirement here is "uniformity" but it is our view that a broader interpretation is necessary and that what is required is uniformity on a basis which will make possible sound decisions on all matters concerning railway policy. This concept of standardized and clarified accounting classifications implies that the system is to be prescribed by the Board of Transport Commissioners and made applicable to all the Canadian railways. It also implies that the Board of Transport Commissioners should be equipped with a sufficient staff of experts in this field to prepare and supervise the application of the prescribed accounting system.

It is not our purpose to attempt to lay down in detail, the type of account which should be prescribed in specific instances, rather we propose to direct our attention to the general principles which should underlie them, and it is our view that your Commission should recom-

mend that the Board of Transport Commissioners should set out a prescribed system of account following on the principles which will be stated hereafter.

We do not recommend that the system of account as prescribed by the Interstate Commerce Commission in the United States should be followed exactly and in detail. The latest Interstate Commerce Commission Manual does, however, reflect the degree of detail and the amount of precision which that Commission feels to be necessary in order to avoid such a degree of generality that the problem of precise interpretation of various accounts still remains and at the same time avoid such a degree of detail as to prove unnecessarily complicated and unnecessarily time consuming in the preparation of the accounts. We would suggest that that manual offers a useful guide as to the amount of detail which will be required in describing any particular account and as to the procedure which might be adopted with border-line cases. We would make it clear, however, that in order to reflect Canadian policies which need not follow American precedents, substantial variation from the Interstate Commerce Commission Manual will be required in order to adapt it to the Canadian situation.

The first requirement of such a system of prescribed accounts is that there should be a clear definition of the activities which are to be covered by it. It is the view of the Manitoba Government that this system should cover all rail activities of the Canadian railways. The term "rail" as used here should extend to the point where it will cover revenues and expenditures, both current and capital for all those activities which are to be taken into account in determining the level of freight and passenger rates in Canada. The particular division which should be made here has been described previously and needs no further elaboration at this point.

Having thus defined precisely the field which is to be covered, it is our view that the second major objective which should guide the Board in setting up a prescribed system of accounts, should be that of drawing clear distinctions between—

- (a) capital supplied by the owners of the corporation,
- (b) capital supplied by the users of its services,
- (c) capital from other sources.

The third principle, which in our view should guide the decision in these matters, is that a clear line of demarcation should be established between expenditures which are of a current nature and expenditures which are of a capital nature. As pointed out in the chapter on "Maintenance Expenditures" it is essential that precise figures as to the cost of carrying the volume of traffic which is moved in any year and of maintaining the railway system during that year, be available distinct from any expenditures which may be made during the year for the purpose of improving the physical asset so that a better standard of service can be provided in the future, or to make good deficiencies of the past.

It is the view of the Manitoba Government that in addition to the above information, the prescribed system of accounts should make provision for securing data as to the cost, revenue, profit and investment in the different regions of Canada. During the recent rate cases and in the rate cases and the general freight rate investigation of the 1920's, a good deal of attention was directed towards the fact that the railways were apparently making much greater profits in Western Canada than in Eastern Canada. We have discussed this point at some length in the chapter entitled "Regional Considerations" and we merely refer to it again here for the purpose of making it clear that in our view the Board of Transport Commissioners, in setting up its prescribed system of accounts, should make provision for securing accurate information as to the relative level of profit in the different regions of Canada.

Financial and Statistical Reports

As we have already pointed out, one of the main sources of difficulty in interpreting the present railway accounts is the lack of sufficient detailed information in the hands of the Board and those who are attempting to analyze railway results. Consequently the question of the type of reports which the railways make to the Board and to the public follows directly from the discussion of prescribed standard accounting classifications.

It is the view of this Government that the present published reports should therefore be reviewed with the objective of making available to the public of Canada, the detailed information which is necessary to a full disclosure of all facts relevant to the determination of the level of freight rates to be charged in Canada. At the same time care should be taken to preserve the secrecy of any aspects of the companies' operations which are not properly a subject of public information and to avoid the cost of a large amount of clerical work in preparing reports in unnecessary detail.

Once an attempt is made to go beyond broad general objectives and criteria of this type however it becomes necessary to consider very detailed and specific requirements as to the form and structure of these reports. We offer below certain specific suggestions. These suggestions deal with matters which seem to our technical consultants to be of particular importance in the light of their experience in the recent rate cases. The list is by no means intended to be exhaustive but it does give some indication of the nature and range of the information which, in their opinion, should be available to the Board and the public.

Our suggestions with respect to the Annual Reports by the railways to the Board and to the Dominion Bureau of Statistics, are that they should:—

1. Reveal as fully as possible, the results of railway operations during the period under the standard accounting system prescribed by primary accounts,

2. Reveal changes in the different asset accounts during the period, and in the related reserve accounts,
3. Reveal operating revenues, operating expenses and investment, in the major regions of Canada and the formulas which have been used to allocate those items which are not directly attributable to the service in any one region;
4. Include a Balance Sheet segregating rail and non-rail assets and their related reserve accounts,
5. Include the data necessary to a more detailed study of traffic statistics particularly with respect to the volume of traffic moving under the various types of rates.
6. Include the data necessary to a study of the relative level of rates in the major areas of Canada;
7. Include an annual inventory of assets in service, classified in such a manner as to reveal the number of years the various assets have been in service,
8. Include a statement showing wherever possible, statistics of physical units such as rail placed, ties placed, man-hours of work performed, etc., in total and segregated between that chargeable to maintenance and that chargeable to capital.

Our final suggestion in this regard is that there should also be a system of monthly reports in a more condensed and less detailed form, covering those records for which monthly figures are relevant. Wherever monthly reports are provided they should follow the same pattern as the annual reports.

CHAPTER XII

CONCLUSION

This final chapter is not intended as a summary of the views which were expressed in the body of this submission. Rather, it is our purpose to restate briefly our conception of the problem of transportation as related to the function of the Canadian railways. It is our view that these functions are closely related to the stage of development in which Canada finds itself and that the nature of the problem has changed with the various stages of national development.

In this submission we have attempted to deal, in some detail, with those aspects of this problem which, in our view, require particular attention at this time. The problems which we have outlined are, of course, closely related to the present stage of Canadian development and to present conditions in Canada. As in the past, so in the future, the nature of these problems will undergo continuous change and any solutions attempted at this time will therefore inevitably require further review and amendment from time to time. Our suggestions are advanced with this thought in mind and with no intension that they should be interpreted as proposals which are intended to remove all future difficulties in Canadian transportation.

It is obvious that the railways and others will wish to discuss before your Commission, a number of matters which are not covered in this submission. When such matters are raised, the Government of Manitoba proposes to give consideration to the suggestions made and to their probable effect upon Manitoba. We would, therefore, like to ask that we should have the right to make further representations to you regarding any such suggestions made in other briefs.

CANADIAN PACIFIC RAILWAY COMPANY

STATEMENT OF TONS, TON MILES AND REVENUES FROM SELECTED COMMODITIES YEAR 1946

Commodities	Eastern Lines ¹			Western Lines ²		
	Tons	Revenue \$	Tons 1 Mile (Thousands)	Tons	Revenue \$	Tons 1 Mile (Thousands)
Cement	469,175	1,251,451	113,054	269,640	1,702,369	85,372
Coal—Anthracite	1,339,035	1,165,944	115,319	2,811	4,765	143
Coal—Bituminous	2,261,090	4,409,202	564,907	4,313,399	10,384,111	1,201,545
Coke	454,439	1,212,708	156,235	941,163	481,679	94,523
Dressed Meats and Packing House Products	320,295	2,938,576	174,324	194,678	2,445,690	112,604
Fruits and Vegetables	452,682	5,484,394	554,907	418,103	3,983,616	175,579
Grain and Grain Products	4,258,289	13,963,151	2,579,444	8,499,821	26,118,974	3,390,031
Livestock	302,913	1,468,011	81,491	586,978	3,816,029	191,830
Lumber, Logs, Pulpwood, Stingles, etc	4,310,912	11,449,675	1,526,361	3,581,841	15,297,626	1,696,637
Paper, Printed Matter and Books	1,779,311	11,054,921	731,107	260,644	1,509,482	90,316
Ores and Concentrates	2,233,823	1,118,679	16,037	2,252,466	2,544,315	131,457
Rubbery and Rubber Products	496,149	2,857,266	271,023	525,263	3,251,272	422,463
Petroleum, Petroleum Products and Asphalts	1,419,554	5,570,366	319,719	2,573,675	16,556,852	761,664
Sand, Gravel and Stone (Crushed)	946,636	740,941	68,317	923,449	603,458	49,394
Woodchip	100,470	2,809,263	204,961	216,465	775,946	142,067
All Other Revenue Billing— Carried and Less Than Carried	12,732,466	77,263,253	4,423,346	6,751,973	55,031,467	3,366,943
Absorptions and Corrections		6,117,567	Dr		2,660,765	Dr
Total Rail	27,679,210	140,889,428	11,075,821	31,212,219	146,014,662	14,142,579
Inland Water Lines	156,164	731,267	93,816	200,644	462,946	5,892
Grand Total	31,076,810	141,620,705	11,169,631	31,512,863	146,507,608	14,148,571

The tons shown above for Eastern Lines and Western Lines include duplications, i.e., certain tonnage is included in both Eastern Lines and Western Lines figures. Grand totals, tons of revenue freight for 1946 as shown in Annual Report amounted to 66,000,413 tons.

1.—Eastern Lines include Dominion Atlantic and Quebec Central Railways.

2.—Tonnage on Inland Water Lines is already included in the Rail Tonnage and therefore is not added into Grand Total. Revenue and Ton Miles, however for Inland Water Lines are separate from Revenue and Ton Miles for rail and are therefore added into Grand Total for Revenue and Ton Miles.

CANADIAN PACIFIC RAILWAY COMPANY

STATEMENT OF AVERAGE HAUL AND AVERAGE REVENUE
PER TON — YEAR 1948

Commodities	Eastern Lines		Western Lines	
	Average	Average	Average	Average
	Haul	Revenue	Haul	Revenue
	Miles	Per Ton	Miles	Per Ton
Cement ..	231	3.09	232	4.61
Coal—Anthracite	93	1.12	103	1.76
Coal—Bituminous	123	1.48	301	2.30
Coke	274	2.53	167	3.02
Dressed Meats and Packing House Products	781	12.37	579	12.75
Fruits and Vegetables	428	6.55	412	9.49
Grain and Grain Products	589	3.72	561	3.09
Livestock	403	1.54	352	7.10
Lumber Logs, Pulpwood, Shingles, etc.	337	2.67	489	4.20
Paper, Printed Matter and Books .	411	0.21	221	4.21
Orts And Concentrates	21	.39	94	1.06
Refinery and Smelter Products .	673	6.50	721	3.53
Petroleum, Petroleum Products and Asphaltum	167	4.15	367	8.16
Sand, Gravel and Stone (crushed)	73	.78	53	.74
Woodpulp	493	4.70	561	3.56
All Other Revenue Billing—				
Carload and Less than Carload .	323	5.83	532	6.14

The above figures for average revenue per ton on Eastern lines and on Western Lines and for the average length of haul in the same two areas have been calculated from the C.P.R. data for freight revenue, tons of revenue freight and ton miles of revenue freight on Eastern Lines and on Western Lines in 1948. The original data is presented on the basis of only sixteen commodity groups and it has therefore been impossible to prepare a more detailed breakdown for this table.

(1)—Direct copy of material supplied by C.P.R.

Method of Estimating Eastern Average Revenue Adjusted to Western Average Length of Haul

C.P.R., 1948

Commodities	Eastern Average Haul		Western Average Haul		Eastern Average Revenue	
	Miles	\$ Per Ton	Miles	\$ Per Ton	(Col. B) Actual for Eastern Haul	Adjusted to Western Haul (Col. A) (Col. B)
Constant	231	13.19	232	13.19	3.66	3.66
Coal — Anthracite	91	8.34	186	13.03	1.12	1.03
Coal — Bituminous	122	9.61	301	16.61	1.69	2.597
Coke	274	14.53	167	11.03	3.36	1.868
Dressed meats and Packing House Products	701	20.09	479	31.79	13.27	10.474
Fruits and Vegetables	423	14.35	416	16.67	4.56	4.697
Livestock	408	13.54	362	17.27	7.24	6.744
Lumber, Logs, Pulpwood, Shingles, etc.	227	13.19	489	20.19	8.07	4.006
Paper, Printed Matter and Books	411	16.47	121	16.31	6.21	3.429
Oras and Concentrates	21	4.63	64	6.84	.29	.493
Refinery and Smelter Products	673	26.18	721	27.64	6.29	6.642
Petroleum, Petroleum Products and Asphaltum	161	11.02	367	17.39	4.16	6.546
Seed, Gravel and Stone (crushed)	78	7.38	88	9.28	.76	.692
Woodchips	400	10.14	661	26.18	4.99	6.763
All Other Billing— Carried and Less Than Carried	526	16.37	632	25.16	5.46	7.646

Comparison Between Revenue from Moving Western Tonnages Western Distances

(a) at actual Western Average Revenue per ton, and
 (b) at Eastern Average Revenue per ton adjusted to Western Average Lengths of Haul

C.P.R., 1948

Commodities	Western Tonnage	Actual Western Average Revenue Per Ton	Actual Western Tonnage Revenue	Ratio Average Revenue Adjusted to East	Revenue if Western Tonnage Moved at Adjusted Western Average Revenue Per Ton
Cement	355,540	4.51	1,702,360	3.45	1,322,822
Coal — Anthracite	2,521	1.70	4,285	1.615	4,049
Coal — Bituminous	4,519,330	2.30	10,394,111	2.107	11,307,207
Coke	243,340	3.62	881,879	1.858	478,125
Dressed Meats and Packing House Products	194,975	12.75	2,485,999	10.474	2,042,395
Fruits and Vegetables	413,763	8.49	3,502,516	6.497	2,723,003
Livestock	538,561	7.10	3,819,028	6.794	3,646,667
Lumber, Logs, Pulwood, Shingles, etc	3,501,561	4.20	15,297,436	4.036	14,342,506
Paper, Printed Matter, Books	520,944	4.31	2,233,453	5.435	1,542,494
Grain and Concentrates	2,392,456	1.00	2,394,916	.962	1,453,297
Salt and Brine Products	645,983	5.55	3,575,372	6.841	3,391,513
Petroleum, Petroleum Products and Asphaltum	2,075,479	8.16	16,936,023	6.542	11,403,904
Lead, Gravel and Stone (crushed)	922,448	.74	682,458	.861	656,705
Wood pulp	218,465	3.53	775,946	6.783	1,463,262
All Other Revenue Billing— Carload and Less Than Carload	9,781,972	8.16	80,021,497	7.646	61,702,045
Total	92,515,210		118,568,459		119,459,132
			107.20%		100.00%

Method of Estimating Western Average Revenue Adjusted to Eastern Average Length of Haul

C.P.R., 1948

Commodity	Miles	Eastern Average Haul		Western Average Haul		Western Average Revenue		Adjusted to Western Average Haul (Col. A) (Col. B)
		\$ Per Ton	Average of Ten Classes of Freight Standard Class Schedule	\$ Per Ton	Average of Ten Classes of Freight Standard Class Schedule	(Col. A) Average of Ten Classes of Freight Standard Class Schedule	(Col. B) Average for Western Average Haul	
Cement	311	13.19	502	13.19	502	100.00	4.81	4,818
Coal — Anthracite	93	8.94	192	12.03	49.32	86.48	1.70	1,176
Coal — Bituminous	122	9.88	201	14.01	86.48	1.70	2.29	1,191
Coke	274	14.93	167	11.03	121.76	126.85	9.09	2,092
Dressed Meats and Packing House Products	791	30.00	679	23.72	167.96	167.96	12.15	16,173
Fruits and Vegetables	423	13.33	416	14.67	107.35	107.35	8.49	9,481
Livestock	483	14.54	563	17.57	107.35	107.35	9.19	7,632
Lumber, Lign, Plywood, Siding, etc.	277	13.19	469	24.19	86.33	86.33	4.29	2,869
Paper, Potated Master and Books	411	14.67	621	14.31	114.48	114.48	4.31	4,993
Ques and Concoctables	51	4.88	64	4.84	54.93	54.93	1.04	594
Refinery and Chemical Products	673	24.18	721	27.64	94.72	94.72	6.65	6,597
Petroleum, Petroleum Products and Asphaltum	167	11.62	267	17.29	83.41	83.41	3.18	3,174
Sand, Gravel and Stone (crushed)	72	7.34	33	4.75	118.08	118.08	74	274
Woodchip	406	13.14	661	24.19	86.29	86.29	9.59	2,499
All Other Milling— Crushed and Less Than Cracked	123	16.31	631	23.15	73.63	73.63	4.14	5,993

APPENDIX B—Table 4

Comparison Between Revenue from Moving Eastern Tonneses Eastern Distances

- (a) at actual Eastern Average Revenue per ton, and
 (b) at Western Average Revenue per ton adjusted to Eastern Average Lengths of Haul

C.P.R., 1948

Commodities	Eastern Tonneses	Actual Average Revenue Per Ton	Actual Eastern Revenue	Western Average Revenue Per Ton, Adjusted to Eastern Average Haul	Revenue if Eastern Average Revenue Applied to Western Tonneses Per Ton
			\$	\$	\$
Cement	489,176	3.46	1,711,453	4,410	2,253,097
Coal — Anthracite	1,539,035	1.12	1,733,944	1,178	1,499,183
Coal — Bituminous	2,981,660	1.43	4,305,382	1,891	4,144,934
Grit	491,439	2.59	1,278,138	3,632	1,211,494
Dressed Metals and Packing House Products	235,306	12.77	2,998,726	16,175	3,661,432
Fruits and Vegetables	823,692	6.65	5,454,994	8,081	7,070,342
Livestock	563,813	1.34	1,463,811	1,683	1,353,481
Lumber, Logs, Polypwood, Skingholz, etc.	4,539,813	2.47	11,047,478	2,859	12,946,593
Paper, Printed Matter, Books	1,779,311	6.21	11,064,821	4,833	8,771,561
Crude and Concentrate	2,539,923	28	1,138,679	424	1,773,690
Iron and Steel Products	408,749	6.29	2,537,269	6,297	2,332,379
Petroleum, Petroleum Products and Asphaltum	1,479,126	4.15	6,076,569	5,194	7,447,236
Sand, Gravel and Stone (crushed)	944,432	76	749,341	474	957,178
Woodpulp	916,475	4.79	3,896,532	2,480	2,000,498
All Other Revenue Earning— Carload and Less Than Carload	11,717,466	5.89	77,346,523	5,693	82,366,619
Total	37,679,610		123,074,294		129,374,293
			100.00%		100.00%
			100.15%		100.00%

Method of Estimating Adjustment for Change in Average Length of Haul 1946 to 1948

C.P.R. WESTERN CANADA

Commodities	1945		1948		Average of Ton Miles of Freight Handled Standard Schedule and of Central Standard Class Schedule	Average of Ton Miles of Freight Handled Standard Schedule and of Central Standard Class Schedule	Percent Increase in Average Length of Haul 1946-48	1946 Average Revenue Per Ton Adjusted to 1948 Average Haul (Col. C) Actual (Col. D)	1948 Average Revenue Per Ton (Col. E)
	Average Haul Miles	\$ Per Ton	Average Haul Miles	\$ Per Ton					
Coal	204	12.19	202	12.19			100.00	4.07	4.07
Coal, Anthracite	405	20.19	393	12.65			59.58	3.31	1.973
Coal, — Bituminous	461	16.94	361	16.01			88.35	3.93	3.375
Coke	244	12.83	367	11.62			90.85	3.70	2.188
Dressed Meats and Packing House Products	687	27.03	579	23.72			87.71	11.31	9.840
Fruits and Vegetables	651	26.16	418	18.67			71.31	11.83	8.369
Livestock	304	14.14	315	17.27			95.20	6.77	6.445
Lumber, Logs, Peepwood, Shingles, etc.	785	29.28	468	20.15			88.95	6.53	5.855
Paper, Printed Matter and Books	446	16.74	321	16.31			97.43	3.69	3.558
Grain and Concentrates	103	8.98	64	8.84			78.03	1.01	.769
Refinery and Smelter Products	1,202	41.20	731	27.84			66.93	8.03	5.264
Petroleum, Petroleum Products and Asphaltum	307	19.01	267	17.33			102.63	6.43	7.094
Sand, Gravel and Stone (crushed)	28	4.44	53	6.26			127.66	.41	.564
Woodrulp	267	12.31	641	26.16			76.97	1.44	2.100
All Other Revenue Billing—									
Overhead and Less Than Overhead	617	24.47	523	22.15			96.33	6.21	7.427

Method of Estimating Adjustment for Change in Average Length of Haul 1946 to 1948

C.P.R. WESTERN CANADA

1948													1946												
Commodities	Average Haul Miles	Average of Ton Classes of Freight Standard Class Schedule and of Carload Standard Class Schedule		Average Haul Miles	Average of Ton Classes of Freight Standard Class Schedule and of Carload Standard Class Schedule		Percent	1948 Average Revenue per Ton (Col. D)	1946 Average Revenue per Ton (Col. E)	1948 Average Revenue per Ton (Col. F)	1946 Average Revenue per Ton (Col. G)														
		\$ Per Ton	Miles		\$ Per Ton	Miles																			
Cement	509	15.19	202	13.19	200.00	4.81	4.81																		
Coal — Anthracite	408	30.13	168	12.02	147.85	1.70	2.658																		
Coal — Bituminous	401	16.54	301	16.01	118.80	2.80	2.608																		
Coke	344	13.43	147	11.02	128.69	3.69	2.468																		
Dressed Lumber and Packing House Products	647	27.09	579	23.92	373.91	12.95	14.678																		
Fruits and Vegetables	681	24.18	418	18.67	140.23	9.48	13.368																		
Livestock	566	14.14	543	17.27	203.04	7.10	7.458																		
Lumber, Logs, Pulpwood, Shingles, etc.	793	26.28	620	30.19	145.09	4.39	6.328																		
Paper, Printed Matter and Books	550	16.54	321	16.31	302.04	4.31	4.484																		
Grain and Concentrates	103	8.99	64	8.84	131.63	1.00	7.393																		
Refinery and Smelter Products	1,332	41.92	731	37.64	151.46	9.40	9.419																		
Petroleum, Petroleum Products and Asphalts	307	16.01	367	17.58	80.21	8.16	7.298																		
Sand, Gravel and Stone (crushed)	20	4.54	43	0.25	73.64	.74	.397																		
Woodpulp	647	50.52	641	18.18	127.57	2.58	4.688																		
All Other Revenue Earning— Carload and Less Than Carload	617	34.47	533	22.15	210.47	8.14	8.988																		

Comparison Between Revenue from Moving Western Tonnage 1948 Distances
 (a) at 1948 actual Western Revenue per ton
 (b) at 1946 Western Revenue per ton adjusted to 1948 Lengths of Haul

WESTERN CANADA

Commodities	1948 Western Tonnage	1948 Western Revenue Per Ton	1948 Average Revenue Per Ton Adjusted to 1946 Average Haul	Western 1946 Actual Revenue	Revenue if 1946 Tonnage is Moved at 1946 Average Per Ton Adjusted to 1946 Average Haul
Cement	368,940	4.61	4.97	1,701,299	1,264,433
Coal — Anthracite	2,811	1.76	1.973	4,966	5,643
Coal — Bituminous	4,510,320	3.20	3.775	10,264,111	10,712,094
Coke	593,169	3.60	3.168	481,799	530,206
Dressed Meats and Poultry Products	104,978	13.79	9.940	2,496,299	1,618,044
Fruits and Vegetables	419,763	9.49	3.293	3,613,514	3,481,095
Livestock	594,979	1.10	6.446	3,210,009	3,490,166
Lumber, Logs, Plywood, Shingles, etc.	3,501,641	4.30	3.668	15,287,034	13,063,004
Paper Printed Matter, Books	260,944	4.31	3.556	1,209,483	949,050
Ores and Concentrates	3,893,408	1.06	7.66	3,644,216	1,397,431
Refinery and Smelter Products	146,393	9.59	5.394	3,261,973	3,109,194
Petroleum, Petroleum Products and Asphaltum	3,073,475	8.13	7.034	10,290,862	14,649,691
Sand Gravel and Stone (crushed)	823,449	74	5.94	665,659	520,361
Woodchip	218,466	9.53	5.103	770,946	536,105
All Other Revenue Earning— Carried and Less Than Carried	6,761,973	8.14	7.432	59,651,497	50,354,966
Total				110,669,660	106,604,310
				111.3%	100.0%

Comparison Between Revenue from Moving Western Tonnage 1946 Distances
(a) at 1946 actual Western Revenue per ton
(b) at 1948 Western Revenue per ton adjusted to 1946 Lengths of Haul

WESTERN CANADA

Commodity	1946 Western Tonnage	1946 Western Revenue Per Ton		1946 Adjusted to 1946 Average Haul	1948 Western Revenue Per Ton	1948 Adjusted to 1946 Average Haul
		\$	¢		\$	¢
Coal	207,074	4.07	4.61	197,068	1,090,066	5.25
Coal, — Anthracite	2,226	3.21	3.65	11,056	3,616	1.61
Coal, — Bituminous	2,600,068	2.76	2.63	10,692,081	10,200,054	3.84
Coke	124,079	3.70	3.50	103,417	334,146	2.64
Dressed Metals and Picking House Products	194,131	11.21	14.52	2,206,269	2,664,534	12.12
Fruits and Vegetables	361,296	11.23	12.31	4,409,266	5,076,361	13.78
Lumber	494,067	6.77	7.46	5,200,800	2,624,069	5.44
Lumber, Logs, Pulperwood, Milling, etc.	1,949,401	6.32	6.94	17,604,973	12,476,262	6.42
Paper, Printed Matter, Books	324,621	2.63	4.42	169,262	1,097,026	3.34
Grain and Concentrates	1,165,166	2.54	1.29	1,104,160	1,667,267	1.46
Rockery and Smelter Products	380,970	8.03	8.43	2,460,400	2,006,166	5.06
Petroleum, Petroleum Products and Asphaltum	1,426,073	6.48	7.24	9,151,866	10,400,066	7.24
Sand, Gravel and Stone (crushed)	624,714	.41	.44	226,262	269,247	.44
Woodchips	133,133	2.44	4.34	464,140	624,677	4.67
All Other Revenue Billing— Carload and Less Than Carload	4,925,041	8.51	8.26	40,432,163	44,276,616	8.51
Total				87,644,268	96,795,747	110.5%

Method of Estimating Adjustment for Change in Average Length of Haul 1946 to 1948

C.P.R. EASTERN CANADA

1946										1948									
Commodities	Average of Two Classes of Freight Standard Class Schedule		Tons	Average of Two Classes of Freight Standard Class Schedule		Tons	Average Rate 1946	Percent	1000 C) Average of Class Rates 1946 to 1948 as Percentage of Average of Class Rates, 1946	(Col. D) Actual for 1948	1948 Average Revenue Per Ton Adjusted to 1946 Average Rate (Col. C) (Col. D)								
	\$ Per Ton	Miles		\$ Per Ton	Miles														
Cement			327	13.53		231	13.19	100.84	3.66	2.66									
Coal — Anthracite			61	8.34		69	8.34	100.00	1.00	1.00									
Coal — Bituminous			165	10.81		152	9.96	99.54	1.39	1.345									
Coal			304	10.41		374	14.52	90.95	2.62	2.169									
Dressed Metals and Packing House Products			866	20.44		793	20.09	92.75	11.41	10.042									
Fruits and Vegetables			400	18.14		425	18.03	103.01	9.49	9.042									
Livestock			427	19.53		408	18.94	94.93	6.28	6.000									
Lumber, Logs, Softwood, Shingles, etc.			371	14.53		287	13.19	90.94	2.65	3.135									
Paper, Printed Matter and Books			418	18.07		411	14.87	100.00	4.41	4.41									
Ores and Concentrates			89	8.30		81	4.03	76.04	.67	.807									
Railway and Smelter Products			769	17.44		679	26.16	94.71	5.25	5.000									
Petroleum, Petroleum Products and Asphalts			179	11.46		167	11.82	96.16	5.76	5.506									
Sand, Gravel and Stone (crushed)			68	7.07		72	7.36	104.38	.61	.677									
Woodpulp			283	17.95		400	13.14	101.00	2.66	2.400									
All Other Revenue Billing— Outload and Less Third Outload			941	16.46		557	14.31	96.57	6.06	4.969									

Method of Estimating Adjustment for Change in Average Length of Haul 1946 to 1948

C.P.R. EASTERN CANADA

Commodities	1945		1948		Ratio		1948 Average Sales for Ton Adjusted to 1946 Average Haul (Col. D) (Col. E)
	Average Sales	Average of Ten Classes of Freight Standard Class Schedule and of General Standard Class Schedule	\$ Per Ton	Average Haul Miles	\$ Per Ton	Average of Ten Classes of Freight Standard Class Schedule and of General Standard Class Schedule	(Col. D Actual for 1948)
Cement	297	14.68	13.19	231	8.86	98.36	3,639
Coal — Anthracite	10	8.34	8.84	93	8.84	100.00	1.00
Coal — Bituminous	155	10.81	8.60	122	8.60	111.87	1,453
Coke	301	14.01	14.52	274	14.52	118.26	2,943
Dressed Meats and Poultry	653	33.44	36.09	191	36.09	107.81	14,308
Fruits and Vegetables	408	18.14	18.85	425	18.85	94.38	6,363
Livestock	497	18.35	18.54	460	18.54	105.45	7,634
Lumber, Lign. Polwood, Slings, etc.	571	14.83	13.19	227	13.19	110.08	2,469
Paper, Printed Matter and Books	418	18.67	18.67	411	18.67	105.00	6,31
Grain and Concentrates	36	6.29	4.03	21	4.03	251.61	.513
Refinery and Smelter Products	799	37.64	26.18	673	26.18	105.37	6,640
Petroleum, Petroleum Products and Asphaltum	179	11.46	11.03	167	11.03	103.99	4,313
Burl, Girard and Stone (crushed)	48	7.67	7.36	72	7.36	95.83	.747
Woodpulp	232	17.26	18.14	400	18.14	99.01	4,683
All Other Nonferrous Metals— Copper and Less Than Copper	341	18.66	18.31	323	18.31	103.40	5,558

Comparison Between Revenue from Moving Eastern Tonnage 1948 Distances

(a) at 1948 actual Eastern Revenue per ton

(b) at 1946 Eastern Revenue per ton adjusted to 1948 Lengths of Haul.

EASTERN CANADA

Commodities	1948 Eastern Tonnage	1948 Western Actual Revenue Per Ton	Average Revenue Per Ton Adjusted to 1946 Average Haul	Western 1948 Actual Revenue Per Ton	Revenue If 1948 Tonnage is Moved at 1946 Average Distance Per Ton Adjusted to 1946 Average Haul
Cement	446,175	3.09	2.004	1,731,453	1,431,544
Coal — Anthracite	1,238,036	1.19	1.00	1,383,064	1,258,036
Coal — Bituminous	3,901,060	1.46	1.545	4,499,593	3,711,439
Coke	494,639	2.58	2.185	1,273,768	1,016,692
Dressed Meats and Poultry Products	523,295	13.27	10.583	2,985,716	2,394,403
Fruits and Vegetables	833,082	6.06	5.042	3,434,094	4,516,130
Lumber	202,014	7.34	6.08	1,400,011	1,297,049
Lumber, Logs, Pulpwood Shingles, etc.	4,359,912	2.07	2.136	11,647,675	9,308,612
Paper, Printed Matter, Books	1,779,311	5.31	4.41	11,054,911	7,846,792
Gross and Concentrates	2,633,023	.89	.897	1,114,673	1,012,817
Refinery and Smelter Products	404,748	6.26	5.060	2,587,286	2,083,268
Petroleum, Petroleum Products and Asphaltum	1,438,369	4.16	3.496	6,076,369	4,078,931
Sand, Gravel and Stone (crushed)	944,624	.78	.697	746,941	602,675
Woodchip	810,670	6.70	5.460	3,996,363	2,768,017
All Other Revenue Earning— Carload and Less Than Carload	13,732,466	5.63	4.889	77,343,523	67,134,056
Total				133,634,694	111,489,362
				119.1%	100.0%

Comparison Between Revenue from Moving Eastern Tonnage 1946 Distances
(a) at 1946 Actual Eastern Revenue per ton
(b) at 1948 Eastern Revenue per ton Adjusted to 1946 Lengths of Haul.

EASTERN CANADA

Commodities	1946 Eastern Tonnage		1946 Eastern Revenue Per Ton		1946 Actual Eastern Revenue Per Ton		1946 Eastern Revenue Per Ton Adjusted to 1946 Average Length of Haul		Revenue at 1946 Tonnage Moved at 1946 Average Revenue Per Ton Adjusted to 1946 Average Length of Haul	
	a	b	c	d	e	f	g	h	i	
Cement ..	309,227		2.88	3.83			863,977		1,111,004	
Coal — Anthracite	1,320,688		1.00	1.00			1,321,390		1,320,909	
Coal — Bituminous	2,733,521		1.29	1.00			3,513,123		4,513,380	
Coke ..	648,094		9.43	9.83			1,273,067		1,613,911	
Dressed Meats and Packing House Products	947,131		11.41	14.31			3,418,512		3,580,800	
Fruits and Vegetables	773,803		8.43	6.50			4,198,694		4,600,380	
Lumber	214,006		4.36	7.43			1,365,916		1,623,979	
Lumber, Logs, Pulpwood, Shingles, etc.	3,694,723		2.23	2.04			8,429,911		10,774,300	
Paper, Printed Matter, Books	1,548,940		4.41	4.21			8,479,194		9,631,368	
Crude and Concentrates ..	1,399,727		.47	.51			661,436		713,981	
Railway and Similar Products	315,775		5.31	4.96			1,700,357		2,119,688	
Petroleum, Petroleum Products and Asphaltum	1,036,203		9.74	4.53			1,375,426		4,470,860	
Food, Cereal and Stone (crushed) ..	826,143		.81	73			514,089		627,197	
Woodpulp ..	616,003		2.40	4.63			1,280,446		3,482,643	
All Other Revenue Billing—	11,297,297		8.09	3.03			82,354,586		95,100,000	
Carried and Less Than Carried ..										
Total ..							99,312,444		114,501,453	
									118.9%	

C.P.R. Average Revenue Per Ton From Grain in Eastern Canada

Calculation of Change Between 1946 and 1948

	<i>Average Revenue Per Ton</i>	<i>Average Length of Haul</i>
1946	2.84	577
1948	3.72	599

On the average of the Eastern and Prairie Standard Mileage Class Rate scales, there is no difference between the rate for 577 miles and 599 miles. Consequently, no adjustment is made for the change in the length of haul.

But 1948 revenue per ton is 130.1% of 1946 revenue per ton. Hence, the percentage increase between 1946 and 1948 after adjustment for length of haul is 30.1%.

REFERENCES

MANITOBA 5 SUBMISSIONS TO THE
ROYAL COMMISSION ON
M7 40156284 GOV PUB



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